FAIR OAKS INCOME LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

Contents

COMPANY OVERVIEW

Highlights

- Fair Oaks Income Limited's (the "Company") Net Asset Value ("NAV") return per 2021 Share was +22.7%[1] (31 December 2020: -8.3%) for the year ended 31 December 2021 on a total return basis (with dividends reinvested). The NAV return per Realisation Share was 22.7%[1] (31 December 2020: -8.3%) for the year ended 31 December 2021 on the same basis.
- As at 31 December 2021, the Company's total market capitalisation was US$296 million, comprising US$252 million of 2021 Shares and US$44 million of Realisation Shares.
- The 2021 Shares closed at a mid-price of US$0.6225 on 31 December 2021. The 2021 Shares traded at an average discount to NAV of 1.85% during the year ended 31 December 2021.
- The Company's Realisation shares closed at a mid-price of US$0.7000 on 31 December 2021. The Realisation Shares traded at an average premium to NAV of 0.20% during the year ended 31 December 2021.
- On 19 April 2021, the Company announced the result of its reorganisation proposal, being that 62,562,883 2017 Shares had been elected for re-designation as Realisation Shares, representing 13.4% of the 2017 Shares in issue, and 405,815,477 2017 Shares were re-designated as 2021 Shares, representing the balance of 86.6% of the 2017 Shares in issue (including 650,000 shares held in Treasury). The purpose of the reorganisation was to allow those Shareholders who wished to extend the life of their investment in the Company beyond the planned end date of FOIF II LP ("Master Fund II"), to be able to do so by having their 2017 Shares re-designated as 2021 Shares, with such 2021 Shares investing in a new master fund, FOMC III LP (the "Master Fund III"), which will have a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of Master Fund II.
- The Company declared dividends of 9.75 US cents per 2021 Share and Realisation Share in the year ended 31 December 2021 (31 December 2020: 5.80 US cents per 2017 Share), an increase of 3.95 US cents per share or 68% compared to the year ended 31 December 2020.

Financial Highlights

	31 December 2021	**31 December 2020[2]**
2021 Shares		
Net Assets	US$270,738,076	US$294,969,346
Net Asset Value per share	US$0.6682	US$0.6306
Share mid-price at year end	US$0.6225	US$0.6175
Discount to Net Asset Value[1]	(6.84%)	(2.08%)
Ongoing charges figure (2021 Shares only)[3]	0.25%	0.32%
Ongoing charges figure (look through basis)[4]	1.35%	1.47%

	31 December 2021
Realisation Shares	
Net Assets	US$41,786,970
Net Asset Value per share	US$0.6679
Share mid-price at year end	US$0.7000
Premium to Net Asset Value[1]	4.80%
Ongoing charges figure (Realisation Shares only)[3]	0.25%
Ongoing charges figure (look through basis)[4]	1.34%

[1]See "Appendix" on pages 76 - 79.

[2]At 31 December 2020, only one share class being 2017 Shares. On 19 April 2021, these were re-designated 2021 Shares (86.6% of original 2017 Shares) and Realisation Shares (13.4% of original 2017 Shares). See "Summary information" on page 2 for further information.

[3]Total ongoing charges, calculated in accordance with the AIC guidance, is at the Company level only for the year divided by the average NAV for the year. Charges of the underlying Master Funds are not included. See "Appendix" on pages 76 - 79.

[4]Total ongoing charges, calculated in accordance with the AIC guidance, including the Company and the underlying funds divided by the average NAV for the year. See "Appendix" on pages 76 - 79.

COMPANY OVERVIEW

Summary Information

Principal Activity

Fair Oaks Income Limited (the "Company") was registered in Guernsey under the Companies (Guernsey) Law, 2008 on 7 March 2014. The Company's registration number is 58123 and it is regulated by the Guernsey Financial Services Commission as a registered closed-ended collective investment scheme under The Registered Collective Investment Scheme Rules and Guidance 2021. The Company began trading on the Specialist Fund Segment ("SFS") of the London Stock Exchange on 12 June 2014.

Reorganisation

On 19 April 2021, the Company announced the result of its reorganisation proposal, being that 62,562,883 2017 Shares had been elected for re-designation as Realisation Shares (the "Realisation Shares"), representing 13.4% of the 2017 Shares in issue, and 405,815,477 2017 Shares were re-designated as 2021 Shares (the "2021 Shares"), representing the balance of 86.6% of the 2017 Shares in issue (including 650,000 shares held in Treasury). The Company makes its investments through FOIF II LP (the "Master Fund II") and FOMC III LP (the "Master Fund III"), in both of which the Company is a limited partner (the "Master Fund II" and the "Master Fund III" together the "Master Funds"). The Master Fund II was registered in Guernsey on 24 February 2017 and the Master Fund III was registered in Guernsey on 10 March 2021 under The Limited Partnerships (Guernsey) Law, 1995. The purpose of the reorganisation was to allow those Shareholders who wished to extend the life of their investment in the Company beyond the planned end date of the Master Fund II, to be able to do so by having their 2017 Shares re-designated as 2021 Shares, with such 2021 Shares investing in the new Master Fund III, which has a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of the Master Fund II.

At 31 December 2021, the Company has 62,562,883 Realisation Shares and 405,165,477 2021 Shares in issue. The Realisation Shares invest solely into the Master Fund II and the 2021 Shares invest solely into the Master Fund III. At 31 December 2021, the Company had direct holdings of 9.59% (31 December 2020: 71.80%) in the Master Fund II and 100% holding in Master Fund III, which in turn had a holding of 62.21% in the Master Fund II. Together, the Company held a direct and indirect holding of 71.80% in the Master Fund II.

The Master Funds

During the year ended 31 December 2021, the Master Fund II allowed one new limited partner to enter the partnership (being the Master Fund III) and at 31 December 2021, the Master Fund II had six limited partners, including Fair Oaks Founder II LP, a related entity. At 31 December 2021, the Master Fund III had two limited partners, including Fair Oaks Founder VI LP. The General Partner of the Master Fund II and Master Fund III is Fair Oaks Income Fund (GP) Limited (the "General Partner" or "GP").

Cycad and Wollemi

The Master Fund II is also invested into Cycad Investments LP ("Cycad"). Cycad is a Limited Partnership registered in the United States of America on 2 June 2017. Aligned with the Company's investment policy, Cycad also invests into Collateralised Loan Obligations ("CLOs"). On 9 March 2021, a new Guernsey limited partnership was established called Wollemi Investments I LP ("Wollemi"). On 23 March 2021, the Master Fund II transferred its investment in Cycad to Wollemi in exchange for limited partnership interests in Wollemi. In addition, during the year ended 31 December 2021, the Master Fund II also transferred its investments in FOAKS 1X CLO, FOAKS 2X CLO and FOAKS 3X CLO (the "Fair Oaks CLOs") to Wollemi in exchange for limited partnership interests in Wollemi. At 31 December 2021, the Master Fund II holds 100.00% (31 December 2020: nil) of the commitment capital of Wollemi.

Founder Partners

Fair Oaks Founder II LP, a Guernsey limited partnership, has been established to act as the Founder Limited Partner of Master Fund II. Fair Oaks Founder VI LP, a Guernsey limited partnership, has been established to act as the Founder Limited Partner of Master Fund III.

Investment Objective and Policy

The investment objective of the Company is to generate attractive, risk-adjusted returns, principally through income distributions.

The investment policy of the Company is to invest (either directly and/or indirectly through the Master Fund II and/or Master Fund III) in US, UK and European CLOs or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating-rate senior secured loans and which may include non-recourse financing.

The Company implements its investment policy by:

1. with respect to those assets of the Company attributable to the Realisation Shares: investing in Master Fund II; and
2. with respect to those assets of the Company attributable to the 2021 Shares and any future C Shares: investing in Master Fund III.

If at any time the Company holds any uninvested cash, the Company may also invest on a temporary basis in the following Qualifying Short Term Investments:

- cash or cash equivalents;
- government or public securities (as defined in the Financial Conduct Authority ("FCA") Rules);

COMPANY OVERVIEW
Summary Information (continued)

Investment Objective and Policy (continued)

- money market instruments;
- bonds;
- commercial paper; or
- other debt obligations with banks or other counterparties having a single A rating or (if a fund) investing with no leverage in assets rated at least single A, according to at least one internationally recognised rating agency selected by the Board of Directors (the "Board") (which may or may not be registered in the EU).

The aggregate amount deposited or invested by the Company with any single bank or other non-government counterparty (including their associates) shall not exceed 20% of the Net Asset Value ("NAV") in aggregate, and also of the NAV of each share class, at the time of investment. The Company cannot make any other types of investments without shareholder consent to a change of investment policy by ordinary resolution at a general meeting of the Company.

STRATEGIC REVIEW

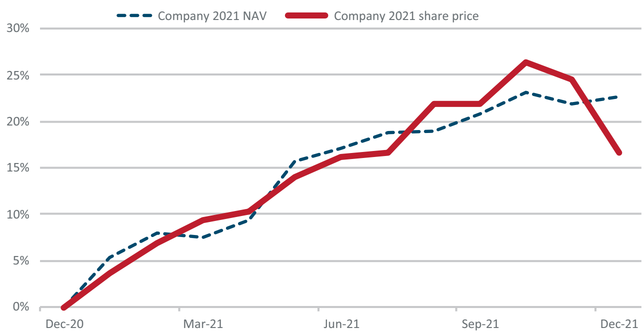
Chairman's Statement

The independent Board of the Company is pleased to present its Annual Report and Financial Statements for the financial year ended 31 December 2021.

The Company's NAV per 2021 Share and 2021 Share price generated a total return (with dividends reinvested) of +22.7% and +16.6% respectively. The Company's 2021 Shares closed at a mid-price of 62.3 US cents as of 31 December 2021, representing a discount to NAV of -6.8%.

The Company's NAV per Realisation Share and Realisation Share price generated a total return (with dividends reinvested) of +22.7% and +30.4% respectively. The Company's Realisation Shares closed at a mid-price of 70.0 US cents as of 31 December 2021, representing a premium to NAV of 4.8%.

Figure 1.1 – Total return: NAV per 2021 Share and 2021 Share price in 2021



CLOs recovered from the unprecedented market volatility experienced by all credit assets in 2020, outperforming other credit sectors. US and European high yield indices generated returns of +6.0% and +4.4% in 2021 and loan markets in the US and Europe generated returns of +5.5% and +5.0% in the year.

Expectations of higher defaults and downgrades as a result of the economic slowdown due to the restrictions imposed during the outbreak of COVID-19 proved to be too high. The trailing 12-month loan default rate ended 2021 at 0.3% in the US and 0.6% in Europe. As at the end of 2021, the default rate was expected to remain low, with the distressed ratio (loans trading below 80c, a potential indicator of the direction of future defaults) standing at 1.0% in the US and 0.6% in Europe.

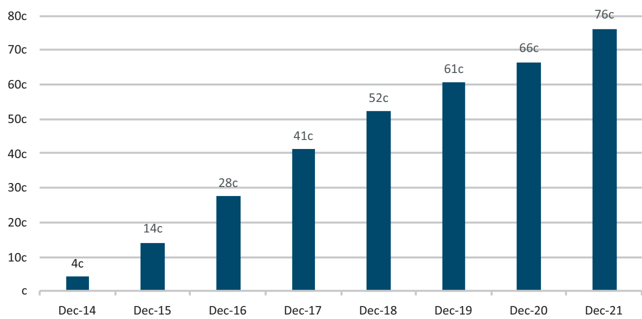
2021 was a record year for CLO new issuance in both the US ($187 billion) and Europe (€39 billion). Despite the large issuance, US and European AAA primary spreads closed 13 bps and 9 bps tighter in December 2021 compared to December 2020. Initial expectations for primary issuance in 2022 ranged from $155-$160 billion in the US and from €30-€37 billion in Europe but the market volatility that has resulted from the invasion of Ukraine in February 2022 is likely to reduce issuance further.

An environment of low defaults and potential loan price volatility has the potential to benefit the Company's investments, supporting distributions and allowing CLOs to take advantage of their long-term, non-mark-to-market financing to redeploy loan repayments.

Cash flow and dividends

As a result of the strong fundamental performance of the portfolio and low defaults (the CLOs in which the Master Funds hold equity (subordinated notes) have an annualised default rate and CCC exposure of 0.26% and 3.68%, respectively, well below the market's average), all CLO equity and debt investments made their scheduled distributions in 2021. The Company declared 2.25 US cents per 2021 Share dividend in respect of the quarter ending March 2021 and 2.50 US cents per 2021 Share dividend in respect of the quarters ending on 30 June 2021, 30 September 2021 and 31 December 2021. The dividend yield on the 2021 Shares and Realisation Shares was 16.1% and 13.9% respectively based on the closing prices as at 31 December 2021.

Figure 1.2 – Cumulative dividends per share since inception (US cents per 2021 share):



The attractive dividend yield will be supported in 2022 by distributions from new investments. ROCKT 2021-2X SUB and WELF 2021-2X SUB made their first distributions in January 2022 and Fair Oaks Loan Funding IV's ("FOLF IV") first payment is scheduled for July. The Master Fund II received US$20.6 million worth of quarterly distributions in January 2022, compared to US$18.9 million in October 2021.

The proactive management of the CLO majority equity positions via resets has resulted in a reduction in the weighted average cost of funding from Libor+1.8% to Libor+1.7% during 2021 which, given stable loan CLO portfolio spreads, further supports CLO equity distributions.

STRATEGIC REVIEW

Chairman's Statement (continued)

Cash flow and dividends (continued)

A key challenge in 2022 will be the expected Fed and ECB interest rate increases. Although this could impact weaker corporate borrowers with lower interest coverage ratios, it is also likely to support ongoing investor demand for floating rate (January 2022 saw the highest monthly inflows into US loan funds since 2012). Consequently, investor interest in CLO notes could grow and the potential for lower CLO financing rates may support new CLO equity investments and further optimisation of the capital structure of existing CLO equity investments.

As a result of these factors (strong cash-flows, low expected defaults, attractive CLO financing), we believe the Company is well positioned to generate attractive risk-adjusted returns in 2022.

A key area of focus for the Company in 2022 will be the closure of the discount at which the 2021 Shares traded at the end of 2021. The Company benefits from key structural advantages including a rigorous valuation policy, the fixed life of the underlying Master Funds and discount management provisions, such as quarterly reinvestment of 25% of management fees if the Company's 2021 Shares do not trade at or above NAV (see Note 8 for further details). The Board will monitor the impact of these measures and explore additional measures should they prove insufficient in this respect.

The Company supports the Paris Agreement on Climate Change. All CLO equity investments completed by the Master Funds since 2019 have included ESG-related investment criteria that prohibit investment in certain industry sectors which are considered to be environmentally or socially harmful. As a UN PRI signatory, the Advisor, Fair Oaks Capital Limited is committed to applying the principles to all stages of investment criteria and increasing awareness in credit markets.

Material events

On 23 March 2021, the Master Fund II changed its name from FOMC II LP to FOIF II LP.

On 9 March 2021, a new Guernsey limited partnership was established called Wollemi Investments I LP ("Wollemi"). On 23 March 2021, Master Fund II transferred its investment in Cycad to Wollemi in exchange for limited partnership interests in Wollemi.

Reorganisation and Placing Programme

On 28 March 2021, the Company announced the publication of a prospectus ("Prospectus") and circular (the "Circular") in relation to the Reorganisation Proposal and Placing Programme Proposal (the "Proposals").

The Board was pleased to put forward the Proposals, which facilitated an extension of Shareholders' investments through a new class of 2021 Shares deployed through a new Guernsey limited partnership called FOMC III LP (the "Master Fund III"), while also offering an option to elect for Realisation Shares and establishing a twelve-month placing programme.

Master Fund III is characterised by a fixed investment period and life, during which Fair Oaks will continue to utilise its tactical approach to investing across the CLO capital structure, seeking to take advantage of well-defined investment opportunities in both control equity and secondary mezzanine securities.

The investment opportunity leverages Fair Oaks' in-depth fundamental research, long track record and experience in structuring and negotiating investments and ongoing monitoring of the underlying portfolios. In addition to improving corporate fundamentals, the potential for attractive risk-adjusted returns for Shareholders is supported by the compelling financing levels currently available to CLO equity investors, which have the potential to benefit both new investments and the refinance or reset of existing investments.

On 19 April 2021, at the Extraordinary General Meeting of the Company, resolutions 1 and 2 were passed but resolution 3 was not passed. Resolutions 1 and 2 were to amend the Company's articles of incorporation and allow all ordinary shares of no par value each in the capital of the Company designated as "2017 shares" to be re-designated on a one-for-one basis as ordinary shares of no par value each in the capital of the Company designated as "2021 shares" pursuant to the proposals set out in the Circular, EXCEPT THAT where and to the extent that a shareholder made a valid election for the re-designation of some or all of their 2017 Shares as ordinary shares of no par value each in the capital of the Company designated as "Realisation Shares".

Resolution 3 was to empower the Directors of the Company to issue up to a maximum of 350 million C Shares and such number of 2021 Shares as represents 20% of 2021 Shares then in issue. The Board acknowledged that Resolution 3 did not pass by a small margin and consulted with major shareholders ahead of proposing a resolution to disapply pre-emption rights at the forthcoming Annual General Meeting.

On 19 April 2021, the Company announced the results of the Elections. The purpose of the reorganisation was to allow those Shareholders who wished to extend the life of their investment in the Company beyond the planned end date of Master Fund II, to be able to do so by having their 2017 Shares re-designated as 2021 Shares, with such 2021 Shares investing in a new master fund, Master Fund III, which will have a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of Master Fund II. Shareholders who did not wish to extend the life of their investment to participate in Master Fund III were able to make an express election to have their existing 2017 Shares re-designated as Realisation Shares, which will continue to participate solely in Master Fund II.

STRATEGIC REVIEW

Chairman's Statement (continued)

Material events (continued)

Results of Elections

The Company announced that 62,562,883 2017 Shares had been elected for re-designation as Realisation Shares at the effective date, representing 13.4% of the 2017 Shares currently in issue.

Consequently, 405,815,477 2017 Shares were re-designated as 2021 Shares, representing the balance of 86.6% of the 2017 Shares currently in issue (including 650,000 shares held in Treasury). Based on the above election results and the 2017 Share price as at close of business on 16 April 2021, the 2021 Share class had an opening market capitalisation of approximately US$266 million.

On 22 April 2021, 405,815,477 2021 Shares and 62,562,883 Realisation Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange.

On 21 May 2021, the Company's Annual General Meeting ("AGM") was held and all resolutions were passed on a poll.

Resolutions 8 to 11 passed at the AGM were not in the ordinary course of business. The full text of these resolutions are detailed in the Notice of AGM as announced by the Company on 30 April 2021 and are summarised below:

- *Resolution 8* – THAT the Company be authorised in accordance with Section 315 of The Companies (Guernsey) Law, 2008 (as amended) (subject to all applicable legislation and regulations) to make market acquisitions of up to a maximum of 14.99% per annum of its 2021 Shares and of its Realisation Shares in issue, subject to the conditions set out in the full text of *Resolution 8* in the Notice of AGM;

- *Resolutions 9 and 10* – THAT the Directors of the Company be empowered, subject to the conditions set out in the full text of *Resolutions 9 and 10* in the Notice of AGM, to issue:

  a. up to a maximum number of 40 million 2021 Shares (*Resolution 9*);
  b. up to a maximum number of a further (in addition to that which is referred to in *Resolution 9*) 40 million 2021 Shares (*Resolution 10*);

- *Resolution 11* – THAT the Directors of the Company be empowered, subject to the conditions set out in the full text of *Resolution 11* in the Notice of AGM, to issue up to a maximum number of US$150 million C Shares under the Placing Programme (as defined in the Circular dated 28 March 2021).

Subsequent events

On 31 January 2022, the Company announced that following the announcement of the NAV as at 31 December 2021, Fair Oaks Income Fund (GP) had purchased 200,885 2021 Shares in the secondary market. The Company's 2021 Prospectus states that in the event that the 2021 Shares trade at a discount to any quarter end NAV, calculated on the date the NAV is published, 25% of that quarter's investment management fees (in respect of the 2021 Shares) will be reinvested to purchase 2021 Shares in the secondary market.

On 7 February 2022, the Company declared an interim dividend of 2.50 US cents per 2021 Share and 2.50 US cents per Realisation Share in respect of the quarter ended 31 December 2022. The ex-dividend date was 17 February 2022 and the dividend was paid on 18 March 2022.

In February 2022, Russia launched an invasion of Ukraine. In addition to the humanitarian and geopolitical consequences, the invasion has caused volatility in global financial markets and increased expectations of supply chain disruption and cost inflation for oil, gas, metals, grains, vegetable oils and other raw materials. The CLOs in which the Master Funds invest do not hold any loans of Russian, Ukrainian or Belarusian borrowers. The borrowers to which the CLOs are exposed have low direct exposure to Russia, Ukraine and Belarus but the profitability of some of them may be impacted by increased input cost inflation. Manufacturers have already been experiencing high input cost inflation during 2021 and have been largely successful in passing cost increases through to their customers but this may become more difficult in an environment of extreme cost inflation and weaker consumer confidence.

Professor Claudio Albanese
Chairman

13 April 2022

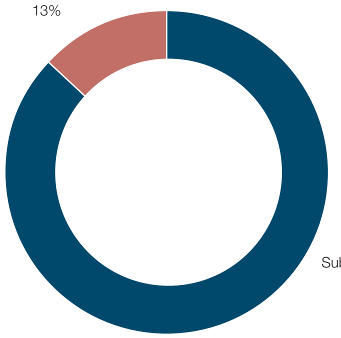
STRATEGIC REVIEW

Investment Adviser's Report

Portfolio Review

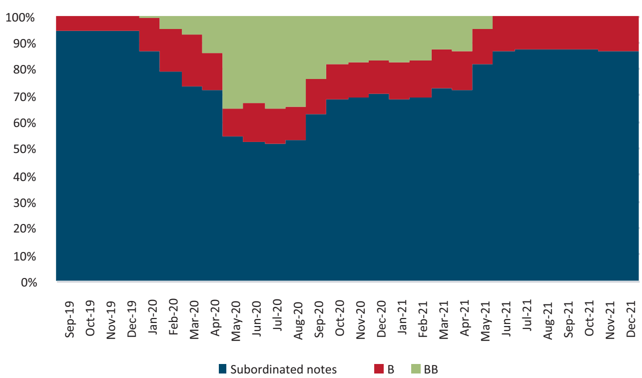
As at 31 December 2021, the Master Funds[1] held 19 CLO equity positions and 13 CLO mezzanine investments offering exposure to 1,219 loan issuers[2] and 20 CLO managers. Control CLO equity positions (ownership of a majority of the CLO equity, giving control over the decision to call, reset or refinance the CLO) represented 85.3% of the portfolio's market value[3].

Figure 2.1 – Portfolio composition of Master Funds[4]



The Master Funds continued to rotate their portfolio as mezzanine positions purchased at deep discounts in 2020 were repaid or sold. CLO equity exposure increased from 71% at the end of 2020 to 87% as of December 2021, with the remaining 13% representing B-rated CLO notes.

Figure 2.2 – Historical rating breakdown (excl. cash)[5]



Four new control CLO equity investments were completed in 2021:

- **Allegro CLO XIII**
  - o CLO backed by a portfolio of US broadly-syndicated secured loans.
  - o The manager of this CLO's portfolio is AXA Investment Managers, Inc.
  - o This CLO's target portfolio had a principal value of US$500 million across an expected 297 unique bank loan issuers, with an expected weighted average exposure per issuer of approximately 0.37%.
  - o The potential total return for this investment, as estimated by Fair Oaks Capital Limited, the Investment Adviser to the Company and Master Funds (the "Investment Adviser"), was between 15% and 17% per annum.

- **Rockford Tower CLO 2021-2**
  - o CLO backed by a portfolio of US broadly-syndicated secured loans.
  - o The manager of the CLO's portfolio is Rockford Tower Capital Management LLC, an affiliate of King Street Capital Management.
  - o The Rockford Tower CLO 2021-2 target portfolio had a principal value of US$400 million across an expected 174 unique bank loan issuers, with an expected weighted average exposure per issuer of approximately 0.48%.
  - o The potential total return for the investments, as estimated by the Investment Adviser, was between 15% and 17% per annum.

- **Wellfleet CLO 2021-2**
  - o CLO backed by a portfolio of US broadly-syndicated secured loans.
  - o The manager of the CLO's portfolio is Wellfleet Credit Partners LLC, the performing credit platform of Littlejohn & Co.
  - o The Wellfleet CLO 2021-2 target portfolio had a principal value of $450 million across an expected 228 unique bank loan issuers, with an expected weighted average exposure per issuer of approximately 0.40%.
  - o The potential total return for this investment, as estimated by the Investment Adviser was between 14% and 16% per annum.

[1]References to Master Fund III refer to FOMC III LP, which launched in April 2021 to continue the investment strategy of the Company. The Company via the 2021 Shares invests through Master Fund III. References to Master Fund II refer to FOIF II LP, which launched in April 2017 to continue the investment strategy of the Company. The Company via the Realisation Shares and FOMC III LP invests through Master Fund II. The Master Fund II and the Master Fund III together the "Master Funds".

[2]Based on the underlying loans in CLOs in which the Master Funds holds equity. Data as at 31 December 2021.

[3]Percentage by market value of control CLO equity positions. Data as at 31 December 2021.

[4]Breakdown by market value of the CLO investments held by the Master Funds, which includes its share in Wollemi Investments I LP ("Wollemi"). Percentages may not add up to 100% because of rounding errors. Data as at 31 December 2021.

[5]Fair Oaks' data on Original CLO ratings at month-end. NAV weighted, excluding cash. Source: Fair Oaks Income Fund monthly reports, RNS statements, trustee reports; as at 31 December 2021.

STRATEGIC REVIEW

Investment Adviser's Report (continued)

Portfolio Review (continued)

- **Fair Oaks Loan Funding IV**
  - o CLO backed by a portfolio of European broadly syndicated secured loans.
  - o The manager of this CLO's portfolio is Fair Oaks Capital Limited, the Investment Adviser to the Company and Master Funds.
  - o This CLO's current target portfolio had a principal value of €400 million across an expected 136 unique bank loan issuers, with an expected weighted average exposure per issuer of approximately 0.71%.
  - o The potential total return for this investment, as estimated by the Investment Adviser was between 14.2% to 15.2% per annum[6].
  - o The CLO's notes were priced in November 2021 and settled in January 2022.

The optimisation of the financing of existing portfolios was also a key focus in 2021. Five positions representing $129 million of par (or 23.4% of the CLO control equity portfolio) were reset, reducing their respective cost of financing and extending their investment periods. The combination of longer, higher future distribution streams was consistently accretive to the respective notes' valuation.

- **AIMCO 2017-A**
  - o The original purchase of AIMCO 2017-A was completed in April 2017 with a weighted average coupon for the CLO financing of US Libor+1.85%.
  - o AIMCO 2017-A's original investment period was scheduled to end in July 2021.
  - o After the reset, AIMCO 2017-A will benefit from a weighted average coupon of US Libor+1.61% and an additional five-year investment period.
  - o As a result of the reset, the potential total return for this investment, since inception, as estimated by the Investment Adviser, will increase by 4.27% per annum and the projected multiple on capital invested will increase from 1.4x to 1.9x.

- **Fair Oaks Loan Funding I**
  - o Priced in July 2019 with a weighted average coupon for the CLO financing of Euribor+1.85%.
  - o Fair Oaks Loan Funding I's original investment period was scheduled to end in July 2021.
  - o After the reset, Fair Oaks Loan Funding I benefits from a weighted average coupon of Euribor+1.76% and an investment period ending in July 2025.
  - o As a result of the reset, the potential total return for this investment, since inception, as estimated by the Investment Adviser, will increase by 2.83% per annum and the projected multiple on capital invested will increase from 1.23x to 1.62x.

- **Fair Oaks Loan Funding II**
  - o Priced in September 2020 with a weighted average coupon for the CLO financing of Euribor+2.41%.
  - o Fair Oaks Loan Funding II's original investment period was scheduled to end in July 2021.
  - o After the reset, Fair Oaks Loan Funding II benefits from a weighted average coupon of Euribor+1.68% and an investment period ending in October 2025.
  - o As a result of the reset, the potential total return for this investment, since inception, as estimated by the Investment Adviser, will increase by 8.03% per annum and the projected multiple on capital invested will increase from 1.04x to 1.36x.

- **Signal Peak CLO 4**
  - o The original purchase of Signal Peak CLO 4 was completed in October 2017 with a weighted average coupon for the CLO financing of Libor+1.82%.
  - o The original investment period for Signal Peak CLO 4 was scheduled to end in October 2021.
  - o After the reset, Signal Peak CLO 4 will benefit from a weighted average coupon of Libor+1.77% and an investment period ending in October 2026.
  - o As a result of the reset, the potential total return for this investment, since inception, as estimated by the Investment Adviser, will increase by 4.2% p.a.
  - o In addition, as part of the reset transaction, the documentation of the investment has been updated to include ESG-focused investment restrictions. The Company believes that this was the first instance of a US CLO that has used a reset to implement this change.

- **Fair Oaks Loan Funding III**
  - o Priced in September 2020 with a weighted average coupon for the CLO financing of Euribor+2.01%.
  - o Fair Oaks Loan Funding III's original investment period was scheduled to end in October 2023.
  - o After the reset, Fair Oaks Loan Funding III benefits from a weighted average coupon of Euribor+1.79% and an investment period ending in April 2026.
  - o As a result of the reset, the potential total return for this investment, since inception, as estimated by the Investment Adviser, will increase by 4.8% per annum and the projected multiple on capital invested will increase from 1.27x to 1.51x.

[6]The Investment Adviser's estimated potential return for Fair Oaks Loan Funding IV includes the expected impact of hedging the investment to USD and the waiver of the investment management fees at Master Fund II on the amount invested.

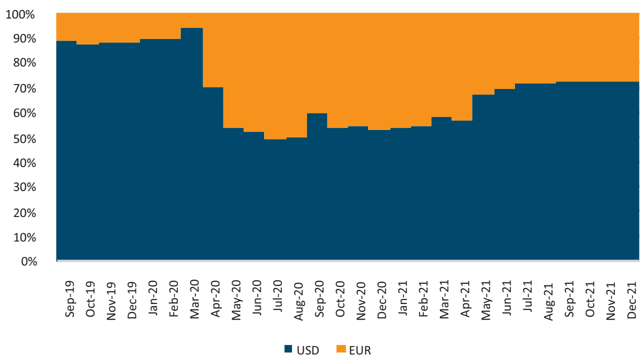
STRATEGIC REVIEW

Investment Adviser's Report (continued)

Portfolio Review (continued)

As a result of these portfolio changes, the Master Funds' exposure to USD denominated assets increased from 53% in December 2020 to 73% at the end of 2021.

Figure 2.3 – Currency breakdown (excl. cash)[7]



The active management of the portfolio was instrumental to allow the Master Funds to de-risk while taking advantage of tactical market opportunities in 2016 and 2020, which generated efficient risk-adjusted and asymmetric returns. Going forward we expect this dynamic approach to continue to benefit the Master Funds as volatility increases in broader markets.

All control CLO equity investments (including reset and refinancings) completed since July 2019 have included ESG exclusion criteria in the CLO's documentation. CLO investments subject to ESG investment criteria represented 58% of all CLO equity investments in the portfolio as of the end of 2021.

Figure 2.4 – CLO equity investments subject to ESG investment restrictions

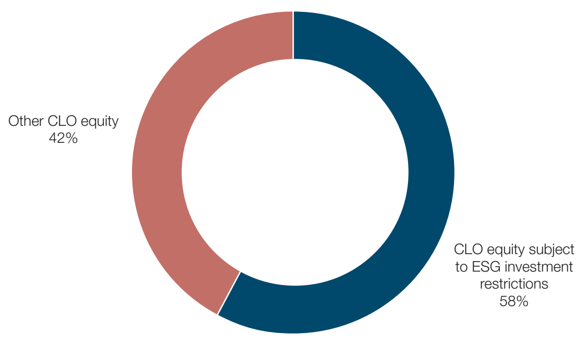


Figure 2.5 – CLO manager diversification of Master Funds[8]

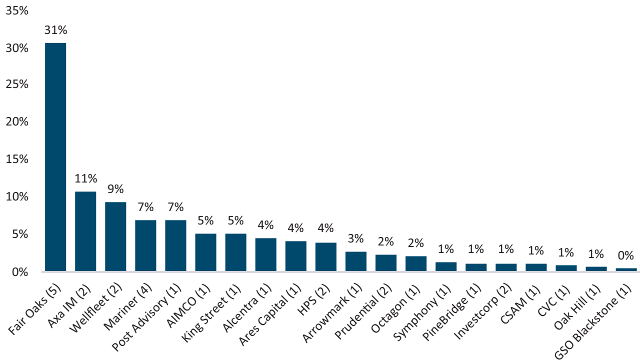


Figure 2.6 – Geographical spread of loans (top five) and currency breakdown[9]

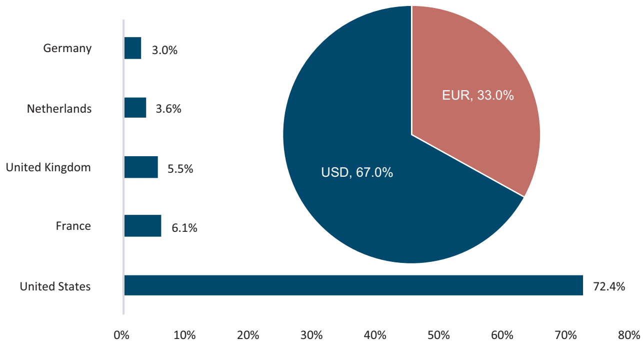
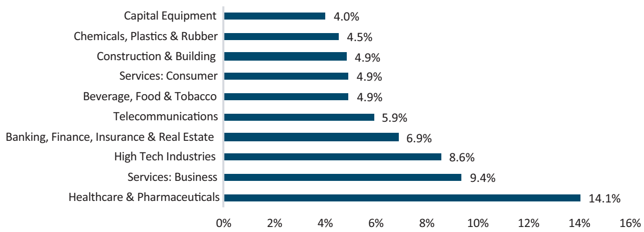


Figure 2.7 - Industry diversification by Moody's (top 10)[10]



[7]Fair Oaks' data on Original CLO ratings at month-end. NAV weighted, excluding cash. Source: Fair Oaks Income Fund monthly reports, RNS statements, trustee reports; as at 31 December 2021. Source: Intex.

[8]Based on market value of the CLO investments, as at 31 December 2021. Percentages may not add up to 100% because of rounding errors. The number of investments is shown in parentheses after each manager name.

[9]Based on loan par value weighted by Master Funds ownership of Income Notes. Source: Intex.

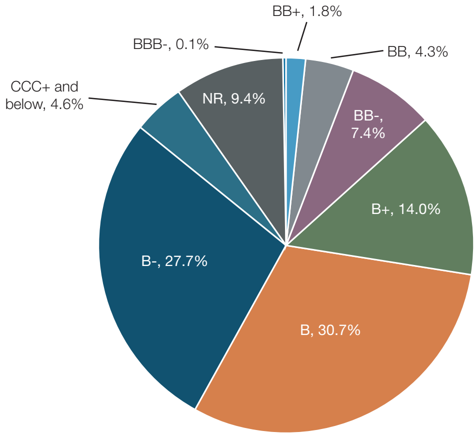
[10]Based on Moody's sectors and loan par value weighted by Master Fund II's ownership of Income Notes. Source: Intex.

STRATEGIC REVIEW

Investment Adviser's Report (continued)

Portfolio Review (continued)

Figure 2.8 – Rating breakdown[11]



The focus on originating and controlling CLO equity note investments has paid dividends in the form of superior fundamental performance. Origination and control allowed the Master Funds to veto specific loans when the transactions were launched and to monitor and influence the CLOs over time. Lower fees in primary investments also allowed CLO managers to construct more conservative portfolios with no need to "stretch for yield". As a result, the Master Funds have benefitted from underexposure to sectors such as retail or energy.

Quarterly distributions continue to improve as a result of performance and the larger allocation to CLO equity notes. Distributions in 2021 totalled US$71.7 million and distributions in January 2022 were US$20.6 million, compared to US$18.9m for October 2021.

Figure 2.9 highlights the annualised equity distributions for transactions present in the portfolio from Q2 2019 and compares it with the market. In terms of relative performance, even the investments in Master Funds' lowest quartile in terms of performance outperformed the market median.

Figure 2.9 – Annualised Equity Distributions (over par)[12]

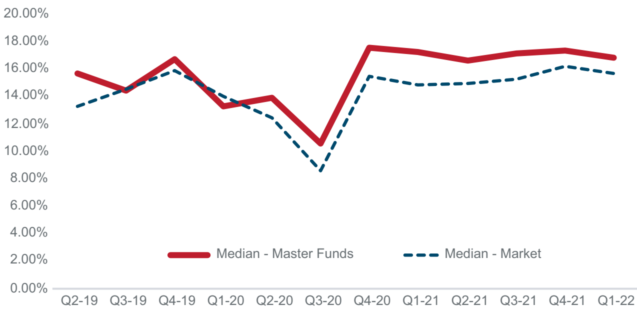
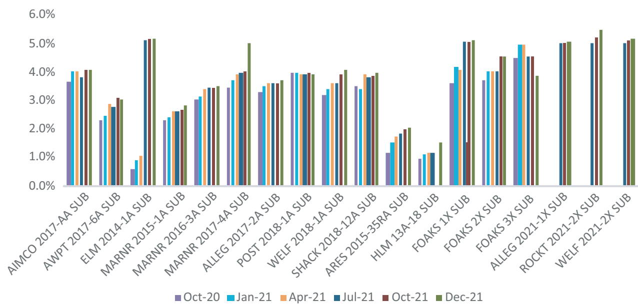


Figure 2.10 – Overcollateralisation test headroom[13 & 14]



Looking at the sustainability of these cashflows, the OC-test headroom, which determines whether distributions may be temporarily diverted from the CLO Equity, has shown a continuous improvement since October 2020, reducing the potential for any future cash-flow diversion.

US Loan Market Update

The US leveraged loan market continued to recover in 2021. The average bid price of the S&P US Leveraged Loan Index was 98.64 on 31 December 2021, compared to 96.19 on 31 December 2020 and a 2020 intra-year low of 76.23 on 23 March 2020.

[11]Based on loan par value weighted by the Master Funds proportional ownership of Income Notes. Source: Intex. Based on S&P deal ratings. Due to rounding errors, the percentages may not sum to 100%.

[12]Median market Source: Intex, Barclays. Based on annualised quarterly distributions over par.

[13]Source: Intex.

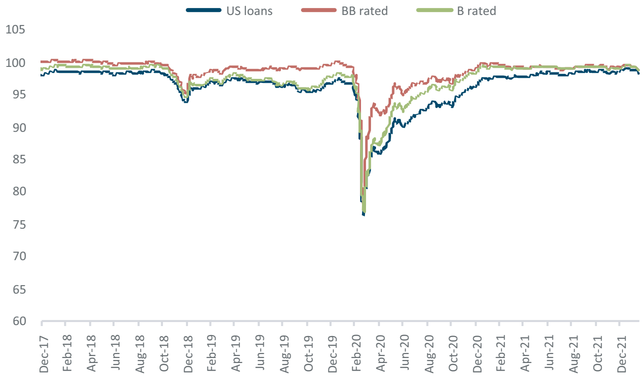
[14]The OC-test headroom for FOAKS 3 was reduced in July 2021 by the first distribution to the Subordinated Notes, which included a distribution of the excess principal balance that had accumulated since the CLO's closing date. It was reduced again in December 2021 by the refinancing of the CLO liabilities which involved a new capital structure and test levels.

STRATEGIC REVIEW

Investment Adviser's Report (continued)

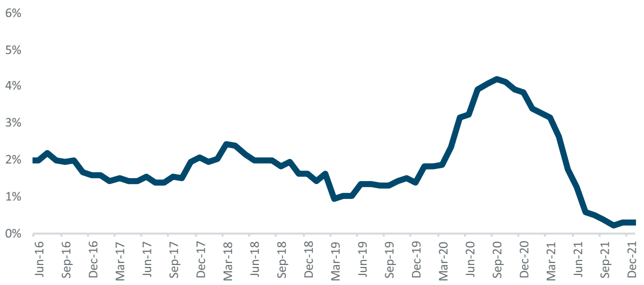
US Loan Market Update (continued)

Figure 2.11 - Average bid price of US leveraged loans, BB and B rated loans[14]



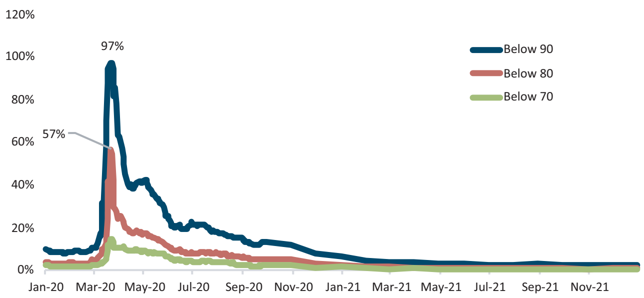
The trailing 12-month loan default rate fell from 3.83% in December 2020 to 0.29% in December 2021.

Figure 2.12 – US loan default rate[15]



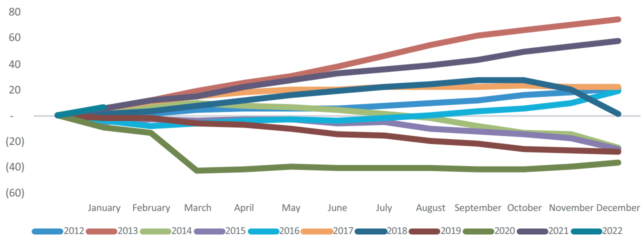
The US distressed ratio (the percentage of loans trading below 80c, a potential indicator of the direction of future defaults) decreased from 2.2% in December 2020 (and 56.8% in March 2020) to 1.0% in December 2021.

Figure 2.13 – US loan price distribution[16]



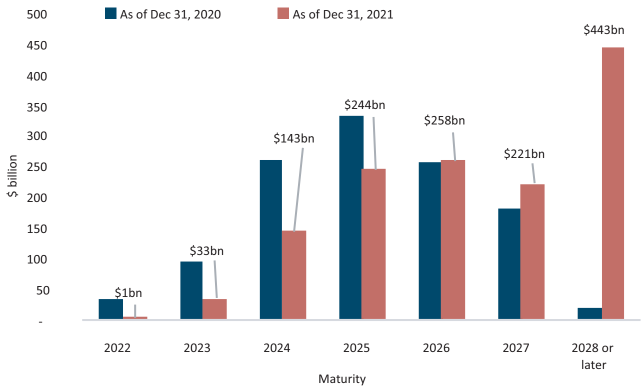
The US loan market was supported in 2021 by increased investor demand for floating-rate assets in response to the expected interest rate increases in 2022. Prime loan funds saw positive net inflows, the first calendar year since 2017. Total 2021 inflows totalled US$57.3 billion compared to US$27.8 billion of outflows in 2020.

Figure 2.14 – Flows into loan funds by year[17]



The strength of the loan market allowed companies to refinance shorter term maturities. The number of loans due to be repaid in the next few years is limited. The notional of US loans maturing in 2022-2024 has fallen from US$386 billion as of year-end 2020 to US$177 billion as of year-end 2021 (Figure 2.15).

Figure 2.15 – Maturity wall of the US loan market of performing loans (US$billion)[17]



The lack of loan maturities in the short to medium term, combined with strong earnings in 2021, have supported high cash-flow and interest coverage, both supportive given the potential for higher interest rates. Bottom-up credit analysis continues to be key as the market average hides an extensive range of fundamental performance. For example, 9% of issuers in the S&P/LSTA US Leverage Loan Index have cash-flow coverage of less than 1.5x, putting them at risk as rates and interest costs increase.

The combination of inflows into loan funds, very low levels of distressed loans and limited maturities supported a low default outlook for 2022 and beyond. According to S&P Leveraged Commentary Data's ("LCD") December 2021 quarterly survey of market participants, the expectation was that the US loan default rate in 2022 would be 0.91%.

[14]Source: S&P/LSTA Leveraged Loan Index.
[15]S&P Global Intelligence and JP Morgan. Data as at 31 December 2021 unless otherwise stated. Based on S&P/LSTA Leveraged Loan Index.
[16]S&P Global Intelligence, Q4-2021. Distribution by year of maturity.
[17]Source: S&P Global Market Intelligence.

STRATEGIC REVIEW

Investment Adviser's Report (continued)

European Loan Market Update

The trailing 12-month loan default rate fell from 2.6% in December 2020 to 0.6% in December 2021. The European distressed ratio (the percentage of loans trading below 80c, a potential indicator of the direction of future defaults) decreased from 2.6% in December 2020 (and 35.6% in March 2020) to 0.6% in December 2021.

Figure 2.16 – European loan default rate[18]

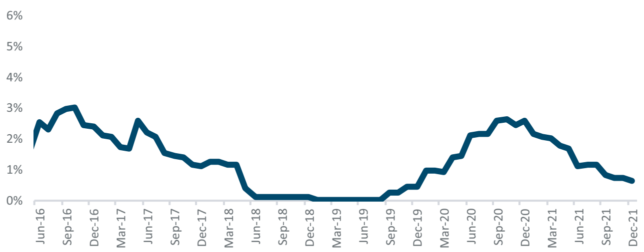
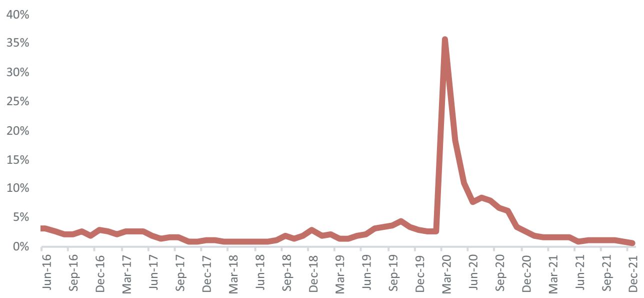
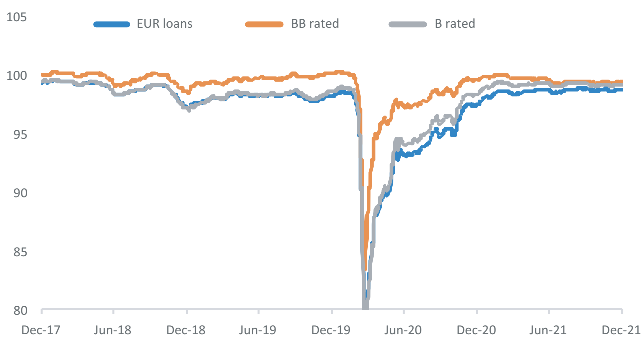


Figure 2.17 – European Leveraged Loan Index ("ELLI") distress ratio[19]



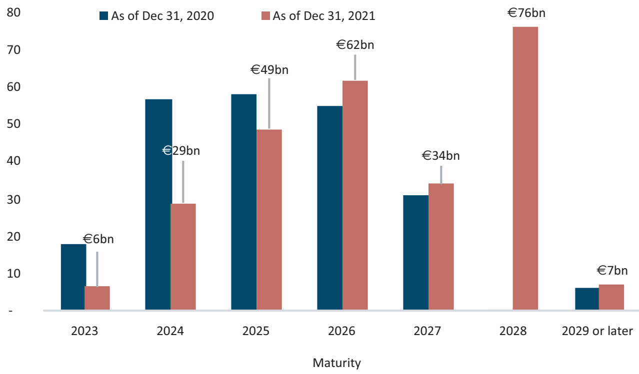
The European leveraged loan market continued to recover in 2021. The average bid price of the S&P European Leveraged Loan Index was 98.77 on 31 December 2021, compared to 97.55 on 31 December 2020 and a 2020 intra-year low of 78.92 on 24 March 2020.

Figure 2.18 – Average bid price of EUR leveraged loans, BB and B rated loans[20]



In Europe, the notional of EUR loans maturing in 2022-2024 has fallen from EUR 75 billion as of year-end 2020 to EUR 35 billion as of year-end 2021 (Figure 2.19).

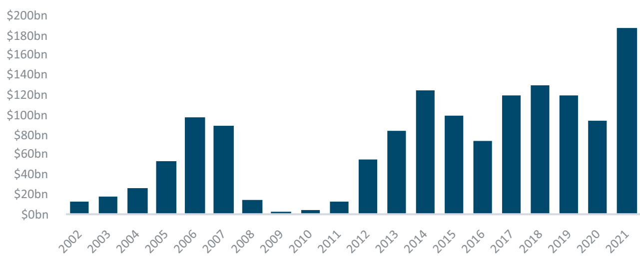
Figure 2.19 – Maturity wall of the EUR loan market of performing loans (EUR billion)[21]



US CLO Market Update

The primary US CLO market in 2021 saw a record new issuance volume of US$187 billion, a significant increase from US$93 billion in 2020. Refinancings and resets in 2021 totalled US$113.3 billion (285 deals) and US$137.6 billion (266 deals) respectively, compared to US$19.9 billion (83 deals) and US$11.4 billion (22 deals) respectively in 2020. Forecast for CLO new issuance in 2022 were US$90 – US$100 billion and forecasts for refi/reset volume were in a very wide range of US$40 billion to US$140 billion.

Figure 2.20 – US CLO new issue volume[22]



Despite the record volumes, CLO AAA spreads were stable in 2021, supported by increasing investor interest.

[18] S&P Global Intelligence and Moody's. Data as at 31 December 2021 unless otherwise stated. Based on S&P/LSTA Leveraged Loan Index.
[19] The distressed ratio (loans trading below 80c, a potential indicator of the direction of future defaults).
[20] Source: S&P European Leveraged Loan Index.
[21] S&P Global Intelligence, 31 December 2021. Distribution by year of maturity.
[22] Source: S&P Global Market Intelligence.

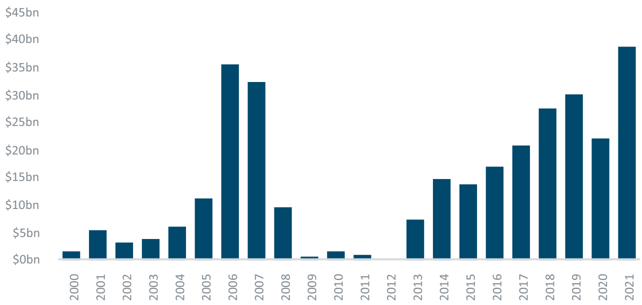
STRATEGIC REVIEW

Investment Adviser's Report (continued)

European CLO Market Update

The European CLO market also saw a record new issuance of EUR38.6 billion in 2021, compared to EUR22.1 billion in 2020 and EUR29.8 billion in 2019[23]. Refinancings and resets in 2021 totalled EUR19.1 billion (61 deals) and EUR41.9 billion (99 deals) respectively, compared to zero deals and EUR0.89 billion (2 deals) respectively in 2020. Forecasts for European CLO new issuance in 2022 were EUR25-30 billion[23]. The Q1 pipeline for EU CLOs included 28 deals, which is a large amount, equivalent to a EUR40 billion annualised run-rate.

Figure 2.21 – EUR CLO new issue volume[23]



As in the US, European AAA CLO spreads were stable in 2021, despite record issuance.

We believe that investor interest in floating-rate assets will continue to support demand for CLO debt, given its relative value and operational simplicity. Whereas CLO notes can be settled on a T+2 basis using Clearstream or DTC, loan settlements are challenging and have been subject to increased delays.

As we predicted last year, the inclusion of ESG language in CLOs has become prevalent. Fair Oaks continues to be at the forefront of these developments, with all primary investments (including resets and refinancings) in CLO control equity positions since July 2019 having been subject to ESG investment restrictions.

Outlook

In addition to the humanitarian and geopolitical consequences, the invasion of Ukraine by Russia in February 2022 has caused increased volatility in global financial markets and increased expectations of supply chain disruption and cost inflation for oil, gas, metals, grains, vegetable oils and other raw materials. The CLOs in which the Master Funds invest do not hold any loans of Russian, Ukrainian or Belarusian borrowers. The borrowers to which the CLOs are exposed have low direct exposure to Russia, Ukraine and Belarus but the profitability of some of them may be impacted by increased input cost inflation. Manufacturers have already been experiencing high input cost inflation during 2021 and have been largely successful in passing cost increases through to their customers but this may become more difficult in an environment of extreme cost inflation and weaker consumer confidence.

While loan and CLO valuations may be impacted by increased risk premiums across financial markets, we do not currently expect the CLOs in which the Master Funds invest to experience a significant increase in credit losses as a result of the invasion and its effect on the global economy. There is also a potential benefit to the Master Funds' CLO equity investments as CLOs reinvest prepayments in loans at lower prices or higher margins during periods of market volatility.

Notwithstanding the increased macro-economic uncertainty, we believe that the Company and the Master Funds are well positioned to generate attractive risk-adjusted returns in 2022:

- Stable and attractive dividend yield: dividend yield of 16.1%[24] supported by distributions from new investments. The Master Fund II received US$20.6 million worth of quarterly distributions in January 2022, compared to US$18.9 million in October 2021. FOLF IV, a new investment completed in December, is scheduled to make its first distribution in July.
- Floating-rate: The floating-rate nature of CLO assets (corporate loans) and liabilities (CLO debt) protects returns on CLO investments from the impact of expected Fed and ECB rate increases. Furthermore, increasing interest rates are likely to support investor demand for floating-rate assets, potentially supporting CLO liabilities.
- Existing, high-quality portfolio and strong sourcing ability: CLO new issue supply in 2022 could be significantly below that seen in 2021, generating a demand-supply imbalance in CLO equity and debt given increasing demand for floating-rate assets. The Master Funds benefits from strong, long-term relationships with CLO managers, including preferential access to Fair Oaks-managed CLOs.
- Differentiated investor base: Their floating-rate nature and specialist investor base have the potential to decouple CLO assets from potential volatility in broader markets.
- Structural advantages: Supported by the Master Funds' rigorous valuation policy, fixed life of the underlying Master Funds and discount management provisions, including quarterly reinvestment of 25% of management fees if the Company does not trade at or above NAV.

We continue to believe that the 16.1%[24] dividend yield offered by the Company, supported by a high-quality portfolio of primarily first-lien, senior secured loans with very attractive long-term, non-mark-to-market financing represents one of the most attractive risk-adjusted opportunities available to investors in the current market environment.

Fair Oaks Capital Limited
13 April 2022

[23]Source: S&P Global Market Intelligence.
[24]As at 31 December 2021.

STRATEGIC REVIEW

Strategic Report

Risks and uncertainties

The Board of Directors is responsible for and has in place a rigorous risk management framework and risk matrix to identify, assess, mitigate, manage, review and monitor those risks. This is all reviewed at least quarterly by the board and on a much more frequent basis by the Investment Adviser.

The Directors have carried out a robust assessment of the principal, secondary and emerging risk areas relevant to the performance of the Company including those that would threaten its business model, future performance, solvency and liquidity. The principal risks are detailed below.

Throughout the year, due regard has been paid to emerging risks, although during the period changes to the identified risks can be characterised as being more of an evolving nature than new and previously unidentified risks. After considering the risks associated with relevant uncertainties created by emerging risks (including the impact on markets and supply chains of geo-political risks such as the current crisis in Ukraine, the risk of further COVID-19 uncertainty, and continuing macro-economic factors and inflation), the Board believes that the Company and the Master Funds are well placed to manage its business risks successfully. The Board is in regular communication with the Investment Adviser who continues to closely monitor the performance of the respective investments of the Master Funds and update the Company on current and emerging risks.

In respect of the Company's system of internal controls and reviewing its effectiveness, the Directors:

- are satisfied that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; and
- have reviewed the effectiveness of the risk management and internal control systems including material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

The Risk Committee reviews the Company's overall risks at least four times a year and monitors the risk control activity designed to mitigate these risks.

Principal and emerging risks

The principal and emerging risks associated with the Company include:

Risk/Description	Control / Mitigation
Investment and financial risk - Market risk Market risk is the risk of changes in market prices affecting the Company's income and/or the value of its investments. This is impacted by a variety of factors including macro-economic conditions, increased default rates, higher interest rate spreads, exchange rates, inflation and general market pricing of similar CLO investments which will all effect the Company and its Net Asset Value. The Company's exposures to market risk mainly comes from movements in the fair value of its investments in the Master Funds and on a look-through basis to the underlying CLO investments.	This risk cannot be mitigated in full but the impact can be reduced by diversification of the underlying CLO portfolio. The Company's objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on investments. The Company's market risk is monitored closely and managed and mitigated as far as possible by the Investment Adviser through active portfolio management and the maintenance of a diversified investment portfolio. This was seen, for example, in 2020 when the Master Fund II took advantage of its flexible investment strategy to ensure an effective asset allocation and a de-risking process, selling CLO subordinated notes and reinvesting proceeds in CLO rated notes. The Risk Committee formally monitors the investment performance of the Company at least four times a year, including when the Investment Adviser reports on the performance of the Company's portfolio at the Board meetings. The investment guidelines and restrictions, as detailed in the prospectus of the Company, ensures adequate diversification of the Master Funds underlying investments.

STRATEGIC REVIEW

Strategic Report (continued)

Principal and emerging risks (continued)

Risk/Description (continued)	**Control / Mitigation** (continued)
Investment and financial risk - Credit risk Credit risk arises principally from debt securities held. The risk is that underlying CLO investments or financial assets held by the Company default, leading to investment losses, a reduction in cash flows receivable by the Master Funds and a fall in the Company's NAV. For the Company this is impacted by a variety of factors including deterioration in underlying credit ratings and credit ratings of counterparties and the secondary market for CLO investments maybe less liquid. The Company considers and aggregates all elements of credit risk exposure, such as individual obligation default risk, country risk and sector risk.	The Company's policy on credit risk mirrors that of the Master Funds, which is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the Company's prospectus, and by taking collateral. Ratings deterioration is expected to have little impact through to maturity of CLOs except in extremis. The Investment Adviser carries out extensive due diligence on the Master Funds' underlying CLO investments and monitors credit ratings performance regularly. These risks are mitigated as far as possible by the Investment Adviser through active portfolio management and the maintenance of a diversified investment portfolio. The Investment Adviser seeks to achieve this diversification of the portfolio for this risk in terms of underlying assets, issuer section, geography and maturity profile, please see the Investment Adviser's Report and Note 5 of the Financial Statements for further details of this diversification.
Financial risk – Counterparty risk Counterparty risk can arise through the Company's exposure to particular counterparties for executing transactions and the risk that the counterparties will not meet their contractual obligations.	Counterparty exposures are monitored by the Investment Adviser and movements reported regularly to the Board. The Company's cash management policy ensures cash and cash equivalents are only to be placed with designated institutions that meet the credit standards set out in the Company's prospectus. In addition, the aggregate amount deposited or invested by the Company with any single bank or other non-government counterparty (including their associates) shall not exceed 20% of the NAV in aggregate, and also of the NAV of each Share class, at the time of investment.
Financial risk – Liquidity risk Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Master Funds' CLO investments are not publicly traded or freely marketable, and there may be limited or no secondary market liquidity, as a result the realising assets to create liquidity in a timely manner maybe difficult.	The Administrator and Investment Adviser review the Company's income and cash flow forecasts on a monthly or ad hoc basis as required to ensure, as far as possible, the Company will always have sufficient liquidity to meet its liabilities when due. Board reviews cash flow forecasts quarterly and ad hoc as required for buy-backs and distributions. Solvency tests are required prior to the Company making any distributions.

STRATEGIC REVIEW

Strategic Report (continued)

Principal and emerging risks (continued)

Risk/Description (continued)	**Control / Mitigation** (continued)
Operational risk This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This can include, but is not limited to, internal/external fraud, business disruption and system failures, data entry errors and damage to physical assets. The COVID-19 pandemic created a risk that service providers will be disrupted by partial or full lockdown provisions.	The Board is ultimately responsible for all operational facets of performance including cash management, asset management, regulatory and listing obligations. The Company has no employees and so enters into a series of contracts/legal agreements with a series of service providers to ensure that both operational performance and regulatory obligations are met. The Board performs ongoing internal monitoring of operational processes and controls and receives regular reports from the administrators of the Company, along with a report from the Auditors. The impact of lockdowns as part of the government response to the COVID-19 pandemic meant that service providers had to invoke business recovery plans and adjust ways of working. This was successfully achieved throughout the COVID-19 pandemic by all service providers but it is an area of ongoing focus and monitoring by the Board.
Compliance and regulatory risk Compliance and regulatory risk can arise where processes and procedures are not followed correctly or where incorrect judgement causes the Company to be unable to meet its objectives or obligation, exposing the Company to the risk of loss, sanction or action by Shareholders, counterparties or regulators.	The Company is required to comply with the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Directive (as implemented in the UK through Financial Services and Markets Authority). Any failure to comply could lead to criminal or civil proceedings. The Investment Adviser and Administrator monitor compliance with regulatory requirements and the Administrator presents a report at quarterly Board meetings.
Political and economic risk Geopolitical events may have an adverse effect on the Company and its operations. The invasion of Ukraine by Russia in February 2022 has been an emerging risk which has caused increased volatility in global financial markets and increased expectations of supply chain disruption and cost inflation for oil, gas, metals, grains, vegetable oils and other raw materials.	The Risk Committee monitors geopolitical risks on an ongoing basis with independent advice received on emerging developments likely to affect the Company. The Investment Adviser will continue to monitor the economic impacts of the invasion of Ukraine by Russia. As detailed further in the Investment Adviser's Report, while loan and CLO valuations may be impacted by increased risk premiums across financial markets, it is not currently expected the CLOs in which the Master Funds' invest to experience a significant increase in credit losses as a result of the invasion and its effect on the global economy.
Environmental, Social and Governance (ESG) Failure of the Company to identify potential future ESG requirements could lead to the Company's shares being less attractive to investors.	The Investment Adviser has been a signatory to the UN Principles for Responsible Investment ("UN PRI") since July 2016 and is committed to applying the UN PRI to all stages of its investment criteria. All CLO equity investments completed by the Master Funds since 2019 have included ESG-related investment criteria that prohibit investment in certain industry sectors which are considered to be environmentally or socially harmful. The Board, the Investment Adviser and all other service providers continue to monitor developments in the ESG reporting requirements and is committed to increasing awareness in credit markets.

STRATEGIC REVIEW

Strategic Report (continued)

Going Concern

The Directors have assessed the financial position of the Company as at 31 December 2021 and the factors that may impact its performance (including the potential impact on markets and supply chains of geo-political risks such as the current crisis in Ukraine, the risk of further COVID-19 uncertainty and continuing macro-economic factors and inflation) in the forthcoming year.

COVID-19

The Directors are aware that further economic disruption caused by COVID-19 may mean there is an increased chance that the Master Funds' CLO investments, will experience higher loan defaults and CCC ratings, breach over-collateralisation tests and, as a result, withhold some quarterly distributions from some CLO noteholders. Furthermore, the Directors are well aware of the risk of cash flow diversion of the Master Funds' CLO investments so will not fully invest all available capital without leaving available liquidity for expenses. Despite this the Master Funds have continued to make income distributions to the Company throughout 2021, as the Master Funds' CLO investments continue to comply with their over-collateralisation tests and make cash distributions.

Russia/Ukraine crisis

The Master Funds CLO investments do not hold any securities in the Russia/Ukraine region and as such the performance or creditworthiness of the underlying CLOs are not expected be significantly impacted. Commodity prices due to the invasion of Ukraine (mainly oil/gas, metals and wheat) may impact some of the companies to which the CLOs have loans but many companies were already subject to input price inflation before the Ukraine invasion and it is not expected that the additional cost inflation will significantly impact the performance of the CLOs.

The Investment Adviser continues to carefully monitor the performance of the Master Funds' investments, working closely with the Directors on current and emerging risks to the Company.

Following due consideration and after a review of the Company's holdings in cash and cash equivalents, investments and a consideration of the income deriving from, and the viability of, the investment in the Master Funds the Directors believe that it is appropriate to adopt the going concern basis in preparing the Financial Statements, as the Company has adequate financial resources to meet its liabilities as they fall due.

Viability Statement

The Directors have conducted a robust assessment of the viability of the Company over a three-year period from the date of signing this report to April 2025, taking account of the Company's current position and the potential impact of the principal and emerging risks documented above.

In making this statement, the Directors have considered the resilience of the Company, taking into account its current position, the principal risks facing the Company in severe but plausible scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the three-year period to April 2025 is an appropriate period over which to provide its viability statement as this is a reasonable period over which risks relating to the asset class should be considered.

At 31 December 2021, the Company is primarily invested into the Master Fund III. The Master Fund III has a planned end date of 12 June 2028. The Company is also invested into the Master Fund II which has a planned end date of June 2026. On 28 March 2021, the Company published a Prospectus and Circular in relation to a Reorganisation Proposal and Placing Programme Proposal. In them, the Company put forward the proposals, which facilitate an extension of Shareholders' investments through a new class of 2021 Shares deployed through the Master Fund III, while also offering an option to elect for Realisation Shares. On 19 April 2021, the Company announced that 86.6% of Shareholders had elected to re-designate their 2017 Shares to 2021 Shares and participate in the Master Fund III with the remaining 13.4% electing to re-designate to Realisation Shares. The Realisation Shares remain invested directly into the Master Fund II.

STRATEGIC REVIEW

Strategic Report (continued)

Viability Statement (continued)

In making their three-year assessment, various factors were taken into consideration by the Directors, which included the Company's NAV, net income, capital repayments and resulting cash flows and dividend cover over the period. These metrics were subjected to stress tests which, in light of the ongoing uncertainty in economies and markets caused by COVID-19 and the Ukraine/Russia conflict, involved flexing a number of main assumptions underlying the forecast and default rates significantly higher than the five-year average. Where appropriate, this analysis was carried out to evaluate the potential impact of the Company's principal risks actually occurring, primarily, severe changes to macro-economic conditions, increased defaults, deterioration in underlying credit ratings and downgrading or illiquidity of non-investment grade loans. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to April 2025.

Management Arrangements

Investment Adviser

The Directors are responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities. The Company has, however, entered into an Investment Advisory Agreement with the Investment Adviser under which the Investment Adviser has been appointed to provide investment advisory services, which include analysing the progress of all assets and investments of the Company and advising the Company on liquidity and working capital retention issues, subject to the overriding supervision of the Directors.

The Directors consider that the interests of shareholders, as a whole, are best served by the continued appointment of the Investment Adviser to achieve the Company's investment objectives. A summary of these terms, including the investment advisory fee and notice of termination period, is set out in note 8 of the Financial Statements.

Custody Arrangements

The Company's underlying assets in Master Fund II are held in custody by BNP Paribas Securities Services S.C.A., Guernsey Branch, ("BNP") pursuant to an agreement dated 9 March 2017 and the Company's underlying assets in Master Fund III are held in custody by U.S. Bank Global Corporate Trust Services, UK Branch ("US Bank") (together the "Custodians"), pursuant to an agreement dated 26 March 2021.

The Company's underlying assets in the Master Fund II and the Master Fund III are registered in the name of the respective Custodian in each case within a separate account designation and may not be appropriated by the Custodian for its own account.

The Board conducts an annual review of the custody arrangements as part of its general internal control review. The Board also monitors the credit rating of the Custodians, to ensure the financial stability of the Custodians are being maintained to acceptable levels. As at 31 December 2021, the credit rating of BNP was Aa3 as rated by Moody's (31 December 2020: Aa3) and A+ by Standard & Poor's (31 December 2020: AA-) and the credit rating of US Bank was A1 as rated by Moody's and AA- by Standard & Poor's.

Administrator

Administration and Company Secretarial services are provided to the Company by Sanne Fund Services (Guernsey) Limited (formerly Praxis Fund Services Limited) (the "Administrator"). The Administrator also provides these services to Master Fund II, Master Fund III, Wollemi, Cycad and the General Partner to these funds. Other services which the Administrator provides the Company include assisting with the AIFMD, Common Reporting Standard and FATCA reporting. A summary of the terms, including fees, is set out in note 8 of the Financial Statements.

GOVERNANCE

Board of Directors

The Directors of the Company, all of whom are non-executive and independent, are listed as follows:

Professor Claudio Albanese (Chairman of the Board and Chairman of the Management Engagement Committee) is the Head of Analytics at Global Valuation. He received a PhD in Theoretical Physics from ETH Zurich in 1988. He has held faculty positions at numerous academic institutions including ETH Zurich, UCLA, the Courant Institute at NYU, and Princeton University. In 1994 he joined the University of Toronto as Associate Professor of Mathematical Physics and in that year he redirected his career towards Mathematical Finance. In 1998 he spent one year at Morgan Stanley at the credit derivatives trading desk. In 2004 he joined Imperial College London as Professor of Mathematical Finance and has then been Honorary Professor at King's College and the CASS School of Business. Claudio consults for several banks, speaks at numerous conferences and has published over 50 articles in academic and professional journals. Claudio founded Global Valuation, a software firm dedicated to the simulation of banks' OTC portfolios, XVA metrics, stress testing and model risk. Claudio was non-executive director at Carador Income Fund Plc from 2006 to 2013. Claudio is a UK resident.

Jonathan (Jon) Bridel (Chairman of the Audit Committee) is currently a non-executive chairman or director of various listed and unlisted investment funds and private equity investment managers. Listings include the premium segment of the Official List of the UK Listing Authority and the Specialist Fund Segment of the London Stock Exchange. He was until 2011 Managing Director of Royal Bank of Canada's investment businesses in Guernsey and Jersey. This role had a strong focus on corporate governance, oversight, regulatory and technical matters and risk management. After qualifying as a Chartered Accountant in 1987, Jon worked with Price Waterhouse Corporate Finance in London and subsequently served in a number of senior management positions in Australia and Guernsey in corporate and offshore banking and specialised in credit. He was also chief financial officer of two private multi-national businesses, one of which raised private equity. He holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. He graduated with an MBA from Durham University in 1988. Jon is a chartered marketer and a member of the Chartered Institute of Marketing, a chartered director and fellow of the Institute of Directors and is a chartered fellow of the Chartered Institute for Securities and Investment. Jon is a Guernsey resident.

Nigel Ward (Chairman of the Risk Committee and Chairman of the Nomination and Remuneration Committee) is an IoD qualified self-employed management consultant and non-executive director. He has over 40 years' experience in international investment markets, credit and risk analysis, portfolio management, corporate and retail banking, corporate governance, compliance and the managed funds industry. He is an independent non-executive chairman or director on the board of several offshore funds and companies covering a broad range of asset classes. Nigel was a founding Commissioner of the Guernsey Police Complaints Commission, and is an Associate of the Institute of Financial Services, a member of the Institute of Directors and the Guernsey Investment Funds Association and holder of the IoD Diploma in Company Direction. Nigel is a Guernsey resident.

GOVERNANCE

Disclosure of Directorships in Public Companies Listed on Recognised Stock Exchanges

The following summarises the Directors' directorships in other public companies:

Company Name	Stock Exchange
Professor Claudio Albanese	
None	
Jon Bridel	
DP Aircraft 1 Limited	London Stock Exchange – SFS
SME Credit Realisation Fund Limited (in managed wind-down)	London Stock Exchange – Main Market
Sequoia Economic Infrastructure Income Fund Limited	London Stock Exchange – Main Market
The Renewables Infrastructure Group Limited[1]	London Stock Exchange – Main Market
Nigel Ward	
None	

[1]Jon Bridel is due to retire at the Annual General Meeting in May 2022.

GOVERNANCE

Directors' Report

The Directors of the Company are pleased to submit their Annual Report and the Audited Financial Statements (the "Financial Statements") for the year ended 31 December 2021. In the opinion of the Directors, the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Company

The Company was incorporated and registered in Guernsey on 7 March 2014 under the Companies (Guernsey) Law, 2008. The Company's registration number is 58123 and it is regulated by the Guernsey Financial Services Commission ("GFSC") as a registered closed-ended collective investment scheme. The Company's ordinary shares were listed on the Specialist Fund Segment ("SFS") of the London Stock Exchange ("LSE") on 12 June 2014.

Results and Dividends

The results for the year are shown in the Statement of Comprehensive Income on page 41.

The Board declared dividends of US$45,580,951 during 2021 followed by an additional dividend declaration of US$11,250,380 declared on 7 February 2022 in relation to the year ended 31 December 2021 (dividends declared in relation to the year ended 31 December 2020: US$26,722,079). Further details of dividends declared or paid are detailed in note 4.

The Board paid or declared dividends to shareholders representing an amount in aggregate at least equal to the gross income from investments, which are received from the Master Fund II and the Master Fund III in the relevant financial period attributable to the Company's investment in the Master Fund II and the Master Fund III, and Qualifying Short Term Investments less expenses of the Company.

Independent Auditor

KPMG Channel Islands Limited were appointed on 12 May 2014 and continued to serve as Auditor during the financial year. A resolution to re-appoint KPMG Channel Islands Limited as Auditor will be put to the forthcoming Annual General Meeting ("AGM").

Directors and Directors' Interests

The Directors, all of whom are independent and non-executive, are listed on page 19.

None of the Directors has a service contract with the Company and no such contracts are proposed. Each independent non-executive Director is entitled to a basic fee of £43,000 (31 December 2020: £43,000) each per annum. In December 2021, the Board agreed an increase in their remuneration and, with effect from 1 January 2022, each non-executive Director is entitled to a basic fee of £45,000 per annum.

The Directors had the following interests in the Company at 31 December 2021 and 31 December 2020, held either directly or beneficially:

	31 December 2021		31 December 2020	
Name	**No. of 2021 Shares**	**Percentage**	**No. of 2017 Shares**	**Percentage**
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel[1]	40,000	0.01%	40,000	0.00%
Nigel Ward	60,000	0.01%	60,000	0.01%

[1]During January 2021, Jon Bridel transferred all shares registered in his name to his spouse, a PCA of Mr Bridel.

GOVERNANCE

Directors' Report (continued)

Substantial Shareholdings

As at 16 March 2022, being the date of the latest shareholder analysis prior to the publication of these Financial Statements, the following 2021 shareholders had holdings in excess of 5% of the issued 2021 share capital:

Name	No. of 2021 Shares	Percentage of 2021 Shares
Vidacos Nominees Limited	44,788,005	11.04%
BBHSL Nominees Limited	36,825,565	9.07%
Nortrust Nominees Limited	35,093,808	8.65%
Vidacos Nominees Limited	27,184,806	6.70%

Related Parties

Details of transactions with related parties are disclosed in note 8 to these Financial Statements.

Regulatory Requirements

Since being admitted to the SFS on 12 June 2014, the Company has complied with the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Directive (as implemented in the UK through Financial Services and Markets Authority).

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") became effective on 1 January 2013. The legislation is aimed at determining the ownership of US assets in foreign accounts and improving US tax compliance with respect to those assets. On 13 December 2013, the States of Guernsey entered into an intergovernmental agreement ("IGA") with US Treasury, in order to facilitate the requirements under FATCA. The Company registered with the Internal Revenue Service ("IRS") on 21 November 2014 as a Foreign Financial Institution ("FFI").

Common Reporting Standard

The Common Reporting Standard ("CRS"), formerly the Standard for Automatic Exchange of Financial Account Information, became effective on 1 January 2016. CRS is an information standard for the automatic exchange of information developed by the Organisation for Economic Co-operation and Development ("OECD"). CRS is a measure to counter tax evasion and it builds upon other information sharing legislation, such as FATCA, the UK-Guernsey IGA for the Automatic Exchange of Information and the European Union Savings Directive, and has superseded the UK-Guernsey Intergovernmental Agreement for the Automatic Exchange of Information with effect from 1 January 2016. Reporting under CRS in Guernsey is completed on an annual basis.

Alternative Investment Fund Managers Directive ("AIFMD")

The Company is categorised as a non-EU Alternative Investment Fund (as defined in the AIFMD) ("AIF") and the Board of the Company is a non-EU Alternative Investment Fund Manager ("AIFM") (as defined in the AIFMD) for the purposes of the AIFMD and as such neither it nor the Investment Adviser will be required to seek authorisation under the AIFMD. However, following national transposition of the AIFMD in a given EU member state, the marketing of ordinary shares in AIFs (as defined in the AIFMD) that are established outside the EU (such as the Company) to investors in that EU member state will be prohibited unless certain conditions are met. Certain of these conditions are outside the Company's control as they are dependent on the regulators of the relevant third country and the relevant EU member state entering into regulatory co-operation agreements with one another.

The Directors have appointed the Risk Committee to manage the relevant disclosures to be made to investors and the necessary regulators. On 18 February 2015, the FCA confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company complied with Article 22 and 23 of the AIFMD for the year ended 31 December 2021. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.

The Company issued a new prospectus on 28 March 2021, the Master Fund III was subsequently launched and invested into by the Company during 2021 as discussed further on page 2. New principal documents were entered into during this period and all matters were disclosed to investors as required under Article 23 of AIFMD. As the Board of the Company is the AIFM, the details of the Company's remuneration policy for the Directors is outlined on page 31 and accords with the principles established by AIFMD.

GOVERNANCE

Directors' Report (continued)

Non-Mainstream Pooled Investments

The Company's ordinary shares are considered as "excluded securities" for the purposes of the FCA Rules regarding the definition and promotion of non-mainstream pooled investments ("NMPI") because the returns to investors holding the Company's ordinary shares are, and are expected to continue to be, predominantly based on the returns from ordinary shares and debentures held indirectly by the Company. The Board therefore believes that independent financial advisers can recommend the Company's ordinary shares to retail investors, although financial advisers should seek their own advice on this issue.

Reporting Fund Regime

The Company was accepted into the UK Reporting Fund regime with effect from 7 March 2014. Under this regime, which effectively replaced the UK Distributor Status regime, an offshore investment fund operates by reference to whether it opts into the reporting regime ("Reporting Funds") or not ("Non-reporting Funds").

A UK investor who disposes of an interest in a Reporting Fund should be subject to tax on any gains realised as capital gains rather than income. Such investors will also be subject to income tax on the distributions received from the offshore fund and their share of the excess of the offshore fund's reported income over the distributions made (i.e. they will be subject to income tax on their share of the offshore fund's income regardless of whether this is distributed or not). Shareholders should seek their own professional advice as to the tax consequences of the UK Reporting Fund regime.

Anti-bribery and Corruption

The Board acknowledge that the Company's international operations may give rise to possible claims of bribery and corruption. In consideration of The Bribery Act 2010, enacted in the UK, at the date of this report the Board had conducted an assessment of the perceived risks to the Company arising from bribery and corruption to identify aspects of business which may be improved to mitigate such risks. The Board has adopted a zero tolerance policy towards bribery and has reiterated its commitment to carry out business fairly, honestly and openly.

Criminal Finances Act

The Board of the Company has a zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion. The Board has satisfied itself in relation to its key service providers that they have reasonable provisions in place to prevent the criminal facilitation of tax evasion by their own associated persons and will not work with service providers who do not demonstrate the same zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion.

UK Modern Slavery Act

The Board acknowledges the requirement to provide information about human rights in accordance with the UK Modern Slavery Act. The Board conducts the business of the Company ethically and with integrity, and has a zero tolerance policy towards modern slavery in all its forms. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, there are no further disclosures to be made in respect of employees and human rights.

Employee Engagement & Business Relationships

The Company conducts its core activities through third-party service providers and does not have any employees. The Board recognises the benefits of encouraging strong business relationships with its key service providers and seeks to ensure each is committed to the performance of their respective duties to a high standard and, where practicable, that each provider is motivated to adding value within their sphere of activity. Details on the Board's approach to service provider engagement and performance review are contained in the Management Engagement Committee Report.

Whistleblowing

The Board has considered the AIC Code recommendations in respect of arrangements by which staff of the Investment Adviser, Custodian or Administrator may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their organisation.

GOVERNANCE

Directors' Report (continued)

Environmental and Social Policy

Over the course of the last decade, renewable energy has grown materially as governments and investors started to realise the need for sustainable energy sources. In 2021, countries worldwide continued to pursue decarbonisation plans and the renewable growth trend is expected to continue going forward as more countries join the Paris Climate Accord which aims to achieve the goal of net-zero carbon emissions by 2050.

The Company is a closed-ended investment company which has no employees or offices and therefore its own direct environmental impact is minimal. The Company operates by outsourcing significant parts of its operations to reputable professional companies, who are required to comply with all relevant laws and regulations and take account of social, environmental, ethical and human rights factors, where appropriate.

The Board notes that the underlying entities which the CLOs are invested in will have a social and environmental impact over which it has limited control. Europe, however, has seen the emergence of a number of new CLOs subject to Environmental, Social and Corporate Governance ("ESG") investment criteria. The inclusion of ESG language in CLOs has become more prevalent and is likely to develop from sector-based negative screening towards ESG scoring. The Master Funds have been at the forefront of these developments and, as of the end of December 2021, 58% of all CLO equity investments in the Master Funds portfolio included ESG investment restrictions. These restrictions exclude any underlying collateral debt obligation whose primary business activity is, amongst others, oil, gas or thermal coal extraction, upstream palm oil production, trade in weapons or firearms, hazardous chemicals, pesticides and wastes, ozone-depleting substances, endangered or protected wildlife or wildlife products, tobacco and predatory lending.

The Company has no direct greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources, including those within its underlying CLOs portfolio.

In carrying out its investment activities and in relationship with suppliers, the Company aims to conduct itself responsibly, ethically and fairly.

In addition, the Investment Adviser has been a signatory to the UN Principles for Responsible Investment ("UN PRI") since July 2016 and is committed to applying the UN PRI to all stages of its investment criteria and to increasing awareness in credit markets.

Sustainability risk

A sustainability risk is an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment. The Investment Adviser integrates sustainability risks into its investment decisions in two ways. Firstly, its analysis of the managers of the CLOs in which the Company/Master Funds invest considers any sustainability risks at the manager level that could impact either the effective management of the CLO or the secondary market value of the CLO securities. Secondly, the Investment Adviser considers sustainability risks at the level of the borrowers of the loans in the CLOs' portfolios. The realisation of sustainability risks at these borrowers could increase the probability of borrowers defaulting on loans held by the CLOs and a consequent erosion of the CLOs' collateral pools.

The Investment Adviser has determined that sustainability risks, while relevant to the Company's and Master Funds' portfolio, present a very limited risk to the value of its investments. The manager-related sustainability risks are mitigated by the tight controls enforced on CLO managers by the CLO indenture and trustee, the manager replacement provisions in the indenture and the fact that CLO investors are ultimately protected by their security over the CLO collateral. The sustainability risks related to the borrowers of loans in the CLO portfolios are mitigated by the diversification of the CLO portfolios and by the analysis undertaken on the loan borrowers by equity investors, lenders and rating agencies.

By order of the Board

Jon Bridel
Director

13 April 2022

GOVERNANCE

Corporate Governance

Compliance

The Board has taken note of the Code of Corporate Governance issued by the Guernsey Financial Services Commission ("Guernsey Code"). The Guernsey Code provides a governance framework for GFSC licensed entities, authorised and registered collective investment schemes. Companies reporting in compliance with the UK Corporate Governance Code (the "UK Code") or the Association of Investment Companies Code of Corporate Governance ("AIC Code"), which was last published in February 2019, are deemed to satisfy the provisions of the Guernsey Code. The UK Code is available on the Financial Reporting Council website, www.frc.org.uk.

As a Guernsey incorporated company and under the SFS Rules for companies, it is not a requirement for the Company to comply with the UK Code. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have considered the principles and recommendations of the AIC Code. The AIC Code addresses all the principles and provisions set out in the UK Code as well as setting out additional provisions on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and provisions of the AIC Code will provide more relevant information to shareholders. The AIC code is available on the AIC website, www.theaic.co.uk.

For the year ended 31 December 2021, the Company complied substantially with the relevant provisions of the AIC Code and it is the intention of the Board that the Company will comply with those provisions throughout the year ending 31 December 2021, with the exception of the provisions listed below:

- *The appointment of a Senior Independent Director:* Given the size and composition of the Board it is not felt necessary to separate the roles of Chairman and Senior Independent Director. The Board considers that all the independent Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.
- *Internal audit function:* The Board has reviewed the need for an internal audit function and due to the size of the Company and the delegation of day-to-day operations to regulated service providers, an internal audit function is not considered necessary. The Directors will continue to monitor the systems of internal controls in place in order to provide assurance that they operate as intended.
- *The appointment of Executive Directors:* Due to the broad range of experience of the Board and given the nature of the Company's activity and that the majority of Directors are deemed to be independent under the AIC Code, it is not considered necessary to appoint executive Directors.

Composition and Independence of Directors

As at 31 December 2021, the Board of Directors comprised three non-executive and independent Directors as set out below. The Company has no executive Directors or any employees. The biographies of the Board are disclosed on page 19.

Professor Claudio Albanese is the Chairman of the Board and the Management Engagement Committee.

Jon Bridel is the Chairman of the Audit Committee.

Nigel Ward is the Chairman of the Risk Committee and the Nomination and Remuneration Committee.

In considering the independence of the Chairman, the Board has taken note of the provisions of the AIC Code relating to independence and has determined that Professor Claudio Albanese is an Independent Director. As Chairman, Professor Albanese is responsible for the leadership of the Board and ensuring effectiveness in all aspects of its role.

Under the terms of their appointment, all non-executive Directors are subject to re-election annually at the Annual General Meeting ("AGM"). At the Annual General Meeting of the Company on 21 May 2021, shareholders re-elected all the Directors of the Company.

The Board are mindful of the length of service of the Directors, all of whom have been in place since the inception of the Company in 2014. To that end, it is anticipated that one of the original three Directors will retire from the Board during 2022, and with this in mind the Board adopted a succession plan to assist in the identification and appointment of a new Director to the Board. While Board appointments will be made on merit, the Directors are also mindful of the benefits of diversity and will look to ensure that the Board has an appropriate range of skills, knowledge and experience, as well considering factors such as gender. The succession plan will be kept under review to ensure an orderly transfer of knowledge and responsibilities as the Directors looks to refresh the Board in the coming few years.

GOVERNANCE

Corporate Governance (continued)

Composition and Independence of Directors (continued)

Although no formal training is given to Directors by the Company, the Directors are kept up to date on various matters such as Corporate Governance issues through bulletins and training materials provided from time to time by the Company Secretary, the AIC and other professional firms.

The Board receives quarterly reports and meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its disposal. At these meetings the Board monitors the investment performance of the Company. The Directors also review the Company's activities every quarter to ensure that it adheres to the Company's investment policy. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

The Board monitors the level of the share price premium or discount to determine what action is desirable (if any).

The Board and relevant personnel of the Investment Adviser acknowledge and adhere to the Market Abuse Regulation which was implemented on 3 July 2016.

Board Diversity

The Board of Directors of the Company comprises three male directors.

The Board is committed to diversity and is supportive of increased gender and ethnic diversity. Going forward the Board will ensure there is an equal balance of gender in candidates for final interviews.

The Nomination and Remuneration Committee regularly reviews the structure, size and composition required of the Board, taking into account the challenges and opportunities facing the Company. The Board is also committed to appointing the most appropriate available candidates taking into account the skills and attributes of both existing members and potential new recruits and thereby the balance of skills, experience and approach of the Board as a whole which will lead to optimal Board effectiveness. In considering future candidates, appointments will be based on merit as a primary consideration, with the aim of bringing an appropriate range of the specific skills, experience, independence, and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition.

Directors' Performance Evaluation

The Board has established an informal system for the evaluation of its own performance and that of the Company's individual Directors. It considers this to be appropriate having regard to the non-executive role of the Directors and the significant outsourcing of services by the Company to external providers.

The Directors undertake, on an annual basis by means of an internal questionnaire, an assessment of the effectiveness of the Board, particularly in relation to its oversight and monitoring of the performance of the Investment Adviser and other key service providers. The evaluations consider the balance of skills, experience, independence and knowledge of the Company. The Board also evaluates the effectiveness of each of the Directors. The Company Secretary collates the results of the questionnaires and the consolidated results are reviewed by the Board as a whole.

In respect of the AGM, which will be held on 14 June 2022, the Board is of the view that each Director should be re-elected given their extensive knowledge of international financial markets, funds and risk management. This experience is evidenced within the biographies of the Board as disclosed on page 19. Collectively, the blend of skillsets demonstrates the importance of the contribution of each Director and why they should each be re-elected at the forthcoming AGM.

The Chairman also has responsibility for assessing the individual Board members' training and development requirements.

GOVERNANCE

Corporate Governance (continued)

Directors' Remuneration

With effect from 27 August 2015, it is the responsibility of the Nomination and Remuneration Committee to determine and approve the Directors' remuneration, having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. The Chairman's remuneration is decided separately and is approved by the Board as a whole.

No Director has a service contract with the Company and details of the Directors' remuneration can be found in the Directors' Remuneration Report on page 31.

Directors' and Officers' Liability Insurance

The Company maintains Directors' and Officers' liability insurance on behalf of the Directors in relation to the performance of their duties as Directors.

Relations with Shareholders

The Company reports to shareholders twice a year by way of the Interim Report and Unaudited Condensed Financial Statements and the Annual Report and Audited Financial Statements. In addition, NAVs are published monthly and the Investment Adviser publishes monthly reports to shareholders on its website www.fairoaksincome.com.

The Board receives quarterly reports on the shareholder profile of the Company and regular contact with major shareholders is undertaken by the Company's corporate brokers and the executives of the Investment Adviser. Any issues raised by major shareholders are reported to the Board on a regular basis.

The Chairman and individual Directors are willing to meet major shareholders to discuss any particular items of concern regarding the performance of the Company. Members of the Board, including the Chairman and the Audit Committee Chairman, and the Investment Adviser are also available to answer any questions which may be raised by any shareholder at the Company's Annual General Meeting.

On 19 April 2021, at the Extraordinary General Meeting of the Company, resolutions 1 and 2 were passed but resolution 3, which was to empower the Directors of the Company to issue up to a maximum of 350 million C Shares and such number of 2021 Shares as represents 20% of 2021 Shares then in issue, did not pass. The Board acknowledged that Resolution 3 did not pass by a small margin and consulted with major shareholders ahead of proposing a resolution to disapply pre-emption rights at the 2021 Annual General Meeting at which the resolution was passed on a poll.

Stakeholders and Section 172

Whilst directly applicable to UK domiciled companies, the intention of the AIC Code is that matters set out in section 172 of the Companies Act, 2006 ("s172 of the Companies Act") are reported. The Board considers the view of the Company's other key stakeholders as part of its discussions and decision making process. As an investment company, the Company does not have any employees and conducts its core activities through third-party service providers. Each provider has an established track record and, through regulatory oversight and control, are required to have in place suitable policies to ensure they maintain high standards of business conduct, treat customers fairly, and employ corporate governance best practice.

The Board's commitment to maintaining the high-standards of corporate governance recommended in the AIC Code, combined with the directors' duties incorporated into the Companies (Guernsey) Law, 2008, the constitutive documents, the Disclosure Guidance and Transparency Rules, and Market Abuse Regulation, ensures that shareholders are provided with frequent and comprehensive information concerning the Company and its activities.

Whilst the primary duty of the Directors is owed to the Company as a whole, the Board considers as part of its decision making process the interests of all stakeholders. Particular consideration being given to the continued alignment between the activities of the Company and those that contribute to delivering the Board's strategy, which include the Investment Manager and Administrator.

The Board respects and welcomes the views of all stakeholders. Any queries or areas of concern regarding the Company's operations can be raised with the Secretary.

GOVERNANCE

Corporate Governance (continued)

Directors' Meetings and Attendance

The table below shows the attendance at Board and Committee meetings during the year. There were four formal Board meetings, four Audit Committee meetings, four Risk Committee meetings, one Management Engagement Committee meetings, two Nomination & Remuneration Committee meeting and five ad hoc Board meeting held during the year ended 31 December 2021.

Name	Board	Audit Committee	Risk Committee	Management Engagement Committee	Nomination & Remuneration Committee
Number of meetings held	**9**	**4**	**4**	**1**	**2**
Professor Claudio Albanese (Chairman of the Board and Management Engagement Committee)	9	N/A	4	1	2
Jon Bridel (Audit Committee Chairman)	9	4	4	1	2
Nigel Ward (Risk Committee Chairman and Nomination & Remuneration Committee Chairman)	9	4	4	1	2

The Chairman is responsible for ensuring the Directors receive complete information in a timely manner concerning all matters which require consideration by the Board. Through the Board's ongoing programme of shareholder engagement and the reports produced by each key service provider, the Directors are satisfied that sufficient information is provided so as to ensure the matters set out in s172 of the Companies Act are taken into consideration as part of the Board's decision-making process.

Board Committees

Audit Committee

The Audit Committee comprises Jon Bridel and Nigel Ward, and meets at least three times a year. Jon Bridel is Chairman of the Audit Committee. The key objectives of the Audit Committee include a review of the Financial Statements to ensure they are prepared to a high standard and comply with all relevant legislation and guidelines, where appropriate, and to maintain an effective relationship with the Auditor. With respect to the Auditor, the Audit Committee's role will include the assessment of their independence, review of the Auditor's engagement letter, remuneration, performance and any non-audit services provided by the Auditor. For the principal duties and report of the Audit Committee please refer to the Report of the Audit Committee on page 32.

Risk Committee

The Risk Committee meets at least four times a year. It comprises the entire Board and is chaired by Nigel Ward. The principal function of the Risk Committee is to identify, assess, monitor and, where possible, oversee the management of risks to which the Company's investments are exposed, principally to enable the Company to achieve its target investment objective of a total return of 12% to 14% per annum over the planned life of the Company, with regular reporting to the Board. As the Company is an internally managed non-EU AIFM for the purposes of AIFMD, the Directors have appointed the Risk Committee to manage the additional risks faced by the Company as well as the relevant disclosures to be made to investors and the necessary regulators. On 18 February 2015, the FCA confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company complied with Articles 22 and 23 of the AIFMD for the year ended 31 December 2021. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.

Management Engagement Committee

The Management Engagement Committee ("MEC") meets at least once a year. It comprises the entire Board and is chaired by Professor Claudio Albanese. The MEC is responsible for the regular review of the terms of the Investment Advisory Agreement and the performance of the Administrator and the Investment Adviser and also the Company's other service providers. For the principal duties of the MEC, please refer to the Management Engagement Committee Report on page 35.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee meets at least once a year. It comprises the entire Board and is chaired by Nigel Ward. The Nomination and Remuneration Committee is responsible for reviewing the structure, size and composition of the Board, to consider the succession planning for directors and senior executives, reviewing the leadership needs of the organisation, identifying candidates for appointment to the Board, agreeing a framework for Director remuneration, ensuring management of the Company are appropriately incentivised to enhance performance and reviewing the appropriateness of the remuneration policy on an on-going basis. In order to identify appropriate candidates for appointment to the Board, the Nomination and Remuneration Committee will appoint an independent consultant for the purposes of succession planning.

GOVERNANCE

Corporate Governance (continued)

Internal Control Review and Risk Management System

The Board of Directors is responsible for putting in place a system of internal controls relevant to the Company and for reviewing the effectiveness of those systems. The review of internal controls is an ongoing process for identifying and evaluating the risks faced by the Company, and which are designed to manage risks rather than eliminate the risk of failure to achieve the Company's objectives.

It is the responsibility of the Board to undertake risk assessment and review of the internal controls in the context of the Company's objectives that cover business strategy, operational, compliance and financial risks facing the Company. These internal controls are implemented by the Company's three main service providers: the Investment Adviser, the Administrator and the Custodian. The Board receives periodic updates from these main service providers at the quarterly Board meetings of the Company. The Board is satisfied that each service provider has effective controls in place to control the risks associated with the services that they are contracted to provide to the Company and are therefore satisfied with the internal controls of the Company.

The Board of Directors considers the arrangements for the provision of Investment Advisory, Administration and Custody services to the Company on an ongoing basis and a formal review is conducted annually. As part of this review the Board considered the quality of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date.

GOVERNANCE

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Companies (Guernsey) Law, 2008 which give a true and fair view of the state of affairs of the Company and its profit or loss for that period.

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008 and the Listing Rules of the SFS of the London Stock Exchange. They are also responsible for the system of internal controls, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements in preparing the Financial Statements.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom and Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility Statement

Each of the Directors, who are listed on page 19, confirms to the best of their knowledge and belief:

- the Financial Statements, prepared in accordance with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Company, as required by DTR 4.1.12R;

- the Management Report (comprising the Chairman's Statement, the Investment Adviser's Report, the Directors' Report, the Strategic Report and other Committee Reports) includes a fair review of the development and performance of the business during the year, and the position of the Company at the end of the year, together with a description of the principal risks and uncertainties that the Company faces, as required by DTR 4.1.8R and DTR 4.1.9R; and

- the Annual Report, comprising the Financial Statements, Strategic Review and Governance report, taken as a whole, is fair, balanced and understandable.

Signed on behalf of the Board by:

Jon Bridel
Director

13 April 2022

GOVERNANCE

Directors' Remuneration Report

The Company's policy in regard to Directors' remuneration is to ensure that remuneration is competitive, aligned with shareholder interests, relatively simple and transparent, and compatible with the aim of attracting, recruiting and retaining suitably qualified and experienced directors.

No element of the Directors' remuneration is performance related, nor does any Director have any entitlement to pensions, share options or any long term incentive plans from the Company.

The Company's Articles limit the fees payable to Directors in aggregate to US$400,000 per annum.

The Directors have received the following remuneration during the year in the form of Directors' fees:

	Per Annum £	For the year from 1 January 2021 to 31 December 2021 Actual £	For the year from 1 January 2020 to 31 December 2020 Actual £
Professor Claudio Albanese (Chairman and Management Engagement Committee Chairman)	43,000	43,000	43,000
Jon Bridel (Audit Committee Chairman)	43,000	43,000	43,000
Nigel Ward (Risk Committee Chairman and the Nomination & Remuneration Committee Chairman)	43,000	43,000	43,000
Total	**129,000**	**129,000**	**129,000**

For the year ended 31 December 2021, each Director is entitled to a fee of £43,000 per annum. During the year ended 31 December 2021, a one-off payment of £5,000 was paid to each Director in respect of the revised Prospectus, with such fee increasing by an additional £2,500 (i.e. bringing this one-off payment to £7,500) if the total gross amounts raised under the Placing Programme exceeded US$100 million.

The remuneration policy set out above is the one applied for the years ended 31 December 2021 and 31 December 2020. In December 2021, the Board agreed an increase in their remuneration and, with effect from 1 January 2022, each non-executive Director is entitled to a basic fee of £45,000 per annum.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The Directors were appointed as non-executive Directors by letters issued in April and May 2014. Each Director's appointment letter provides that, upon the termination of his appointment, he must resign in writing. The Directors' appointments can be terminated in accordance with the Articles and without compensation. The notice period for the removal of Directors is three months as specified in the Director's appointment letter. The Articles provide that the office of director shall be terminated by, among other things: (a) written resignation; (b) unauthorised absences from Board meetings for six months or more; (c) unanimous written request of the other Directors; or (d) an ordinary resolution of the Company.

Under the terms of their appointment, each Director was subject to re-election at the first Annual General Meeting ("AGM") and annually thereafter. At the Annual General Meeting of the Company on 21 May 2021, shareholders voted in favour of re-electing all of the Directors. The Company may terminate the appointment of a Director immediately on serving written notice and no compensation is payable upon termination of office as a director of the Company becoming effective.

The amounts payable to Directors as at 31 December 2021 and 31 December 2020, shown in note 8 to the Financial Statements, related to services as non-executive Directors.

No Director has a service contract with the Company, nor are any such contracts proposed.

Jon Bridel
Director

13 April 2022

GOVERNANCE

Report of the Audit Committee

The Company has established an Audit Committee with formally delegated duties and responsibilities within written terms of reference (which are available from the Company's website).

Chairman and Membership

The Audit Committee is chaired by Jon Bridel, a Chartered Accountant. He and the other member, Nigel Ward, are both independent Directors. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Company's Auditor and are independent of the Investment Adviser. The membership of the Audit Committee and its terms of reference are kept under review. The relevant qualifications and experience of each member of the Audit Committee is detailed on page 19 of these Financial Statements. The Audit Committee's intention is to meet at least three times a year in any full year and it meets the Auditor during those meetings.

Duties

The Audit Committee's main role and responsibilities are to provide advice to the Board on whether the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and alongside the Interim Report and Unaudited Condensed Financial Statements provide the information necessary for shareholders to assess the Company's performance, business model and strategy. The Audit Committee gives full consideration and recommendation to the Board for the approval of the contents of the Interim and Annual Financial Statements of the Company, which includes reviewing the Auditor's report.

The other principal duties include to consider the appointment of the Auditor, to discuss and agree with the Auditor the nature and scope of the audit, to keep under review the scope, results and effectiveness of the audit and the independence and objectivity of the Auditor, to review the Auditor's letter of engagement, the Auditor's planning report for the financial year and management letter and to analyse the key procedures adopted by the Company's service providers.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of the Company's internal control and risk management systems as they relate to the financial reporting process. The Audit Committee also focuses particularly on compliance with legal requirements, accounting standards and the relevant Listing Rules and ensuring that an effective system of internal financial and non-financial controls is maintained.

The Audit Committee also reviews, considers and, if thought appropriate, recommends for the purposes of the Company's Financial Statements valuations prepared by the Investment Adviser. These valuations are the most critical element in the Company's Financial Statements and the Audit Committee questions them carefully.

Financial Reporting and Significant Risk

The Audit Committee has an active involvement and oversight in the preparation of both the Interim Report and Unaudited Condensed Financial Statements and the Annual Report and Audited Financial Statements and in doing so is responsible for the identification and monitoring of the principal risks associated with the preparation of the Financial Statements. After discussion with the Investment Adviser and KPMG Channel Islands Limited ("KPMG"), the Audit Committee determined that the key risk of material misstatement of the Company's Financial Statements related to the valuation of investments.

- Valuation of Master Fund III – The Company's investment in the Master Fund III had a fair value of US$269,884,334 as at 31 December 2021 and represents substantially all the net assets of the Company and as such is the biggest factor in relation to the accuracy of the Financial Statements. This investment is valued in accordance with the Accounting Policies set out in note 2 to the Financial Statements. The Financial Statements of the Master Fund III for the year ended 31 December 2021 were audited by KPMG who issued an unmodified audit opinion dated 13 April 2022. The Audit Committee has reviewed the Audited Financial Statements of the Master Fund III and the accounting policies and determined the Company's fair value of the investment in the Master Fund III as at 31 December 2021 to be reasonable.
- Valuation of Master Fund II – The Company's direct investment in the Master Fund II had a fair value of US$41,814,869 as at 31 December 2021 and represents a substantial portion of the net assets of the Company. This investment is valued in accordance with the Accounting Policies set out in note 2 to the Financial Statements. The Financial Statements of the Master Fund II for the year ended 31 December 2021 were audited by KPMG who issued an unmodified audit opinion dated 13 April 2022. The Audit Committee has reviewed the Audited Financial Statements of the Master Fund II and the accounting policies and determined the Company's fair value of the investment in the Master Fund II as at 31 December 2021 to be reasonable.

GOVERNANCE

Report of the Audit Committee (continued)

Financial Reporting and Audit

The Audit Committee reviews the Company's accounting policies applied in the preparation of its Annual Financial Statements together with the relevant critical judgements, estimates and assumptions and, upon taking the appropriate advice from the Auditor, determined that these were in compliance with IFRS, as issued by the IASB and were reasonable. The Audit Committee reviewed the materiality levels applied by the Auditor to the Financial Statements as a whole and was satisfied that materiality levels were appropriate. The Auditor reports to the Audit Committee all material corrected and uncorrected differences. The Auditor explained the results of their audit and that on the basis of their audit work, there were no uncorrected differences proposed that were material in the context of the Financial Statements as a whole.

The Audit Committee also reviews the Company's financial reports as a whole to ensure that such reports appropriately describe the Company's activities and to ensure that all statements contained in such reports are consistent with the Company's financial results and projections. Accordingly, the Audit Committee was able to advise the Board that the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

External Auditor

The Audit Committee has responsibility for making a recommendation on the appointment, re-appointment and removal of the Auditor. KPMG was appointed as the first Auditor of the Company in 2014. During the year, the Audit Committee received and reviewed the audit plan and strategy from KPMG. It is standard practice for the Auditor to meet privately with the Audit Committee without the Investment Adviser being present at each Audit Committee meeting.

To assess the effectiveness of the Auditor, the Audit Committee will review:

- The Auditor's fulfilment of the agreed audit plan and variations from it;
- The Auditor's assessment of its objectivity and independence as auditor of the Company;
- The Audit Committee Report from the Auditor highlighting the major issues that arose during the course of the audit; and
- Feedback from the Investment Adviser and Administrator evaluating the performance of the audit team.

Where non-audit services are to be provided to the Company by the Auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement will be considered before proceeding. All non-audit services are pre-approved by the Audit Committee after it is satisfied that relevant safeguards are in place to protect the auditors' objectivity and independence.

To fulfil its responsibility regarding the independence of the Auditors, the Audit Committee considered:

- a report from the Auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the Auditor.

During the year ended 31 December 2021, KPMG provided non-audit and audit services as listed on page 34. KPMG confirmed that the non-audit services provided during the year had not impacted their independence and outlined the reasons for this. These non-audit services complied with the Financial Reporting Council ("FRC") Revised Ethical Standard 2019. The Audit Committee was satisfied that these non-audit services had no bearing on the independence of the Auditor in the prior year.

In addition, KPMG directors are subject to periodic rotation of assignments on audit clients under applicable laws, regulations and independence rules. Their rotation policies comply with the FRC Revised Ethical Standard 2019 which states that the engagement director should be rotated after serving in this capacity for the relevant period no longer than five years. This rotation policy is continually monitored, Steven Stormonth was first appointed as the audit engagement director for the year ended 31 December 2019 audit.

GOVERNANCE

Report of the Audit Committee (continued)

External Auditor (continued)

The following table summarises the remuneration payable to KPMG and to other KPMG International member firms for audit and non-audit services during the year ended 31 December 2021 and 31 December 2020, translated into the presentation currency at the exchange rate prevailing at 31 December 2021 and 31 December 2020, respectively.

	For the year ended 31 December 2021 US$	For the year ended 31 December 2020 US$
KPMG Channel Islands Limited		
– Annual Audit of the Company and related entities	274,970	209,698
– Interim review	62,721	51,946
Other KPMG International member firms		
– Reporting accountant services	132,810	–
– Agreed upon procedures – Fair Oaks CLOs[1]	41,408	40,149
– Tax compliance services – Fair Oaks CLOs[1]	–	7,300

Internal Controls

As the Company's investment objective is to invest all of its assets into the Master Funds, the Audit Committee, after consultation with the Investment Adviser and Auditor, considers the key risk of misstatement in its Financial Statements to be the valuation of its investments in the Master Funds, but is also mindful of the risk of the override of controls by its two main service providers: the Investment Adviser and the Administrator.

The Investment Adviser and the Administrator together maintain a system of internal control on which they report to the Board. The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Investment Adviser and Administrator provide sufficient assurance that a sound system of risk management and internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the internal financial control systems and risk management systems on which the Company is reliant. These systems are designed to ensure proper accounting records are maintained, that the financial information on which the business decisions are made and which is issued for publication is reliable, and that the assets of the Company are safeguarded. Such a system of internal financial controls can only provide reasonable and not absolute assurance against misstatement or loss.

In accordance with the guidance published in the 'Turnbull Report' by the FRC, the Audit Committee has reviewed the Company's internal control procedures. These internal controls are implemented by the Investment Adviser and the Administrator. The Audit Committee has performed reviews of the internal financial control systems and risk management systems during the year. The Audit Committee is satisfied with the internal financial control systems of the Company.

On behalf of the Audit Committee

Jon Bridel
Audit Committee Chairman
13 April 2022

[1]Fair Oaks CLOs are classified as affiliates of the Company under the FRC Ethical Standards.

GOVERNANCE

Management Engagement Committee Report

The Company has established a Management Engagement Committee ("MEC") with formally delegated duties and responsibilities within the written terms of reference (which are available from the Company's website www.fairoaksincome.com).

Chairman and Membership

The MEC meets at least once a year. It comprises the entire Board and is chaired by Professor Claudio Albanese. Professor Albanese and the other members, Nigel Ward and Jon Bridel, are all independent Directors. Only independent Directors serve on the MEC and members of the MEC have no links with the Investment Adviser or any other service provider. The MEC is responsible for the regular review of the terms of the Investment Advisory Agreement and the performance of the Administrator and the Investment Adviser and also the Company's other service providers. The membership of the MEC and its terms of reference are kept under review.

Key Objectives

To review performance of all service providers (including the Investment Adviser).

Responsibilities

- To annually review the performance, relationships and contractual terms of all service providers (including the Investment Adviser);
- reviewing the terms of the Investment Advisory Agreement from time to time to ensure that the terms thereof conform with market and industry practice and remain in the best interests of Shareholders and making recommendations to the Board on any variation to the terms of the Investment Advisory Agreement which it considers necessary or desirable;
- recommending to the Board whether the continuing appointment of the Advisor is in the best interests of the Company and Shareholders, and the reasons for this recommendation;
- monitoring compliance by providers of other services to the Company with the terms of their respective agreements from time to time;
- reviewing and considering the appointment and remuneration of providers of services to the Company; and
- considering any points of conflict which may arise between the providers of services to the Company.

MEC Meetings

Only members of the MEC and the Company Secretary have the right to attend MEC meetings. However, representatives of the General Partner, Investment Adviser and other service providers may be invited by the MEC to attend meetings as and when appropriate.

Main Activities during the year

The MEC met once during the year and reviewed the performance, relationships and contractual terms of all service providers as at 8 December 2021 including the Investment Adviser. Furthermore, the MEC reviewed the approaches to GDPR, Criminal Justice Act, Anti-bribery and cyber security, amongst other matters, by its service providers.

Continued Appointment of the Investment Adviser and other Service Providers

The Board continually evaluates the Investment Adviser and other service providers, it reviews investment performance at each Board meeting and a formal review of all service providers is conducted annually by the MEC. The annual third-party service provider review process includes two-way feedback, which provides the Board with an opportunity to understand the views, experiences and any significant issues encountered by service providers during the year. As part of the Board's annual performance evaluation, feedback is received on the quality of service and the effectiveness of the working relationships with each of the Company's key service providers.

As a result of the 2021 annual review it is the opinion of the Directors that the continued appointment of the Investment Adviser and the other current service providers on the terms agreed is in the interest of the Company's shareholders as a whole. The Board considers that the Investment Adviser has extensive investment management resources and wide experience in managing CLOs investments and is satisfied with the quality and competitiveness of the fee arrangements of the Investment Adviser and the Company's other service providers.

Professor Claudio Albanese
Management Engagement Committee Chairman
13 April 2022

Independent Auditor's Report to the Members of Fair Oaks Income Limited

Our opinion is unmodified

We have audited the financial statements of Fair Oaks Income Limited (the "Company"), which comprise the statement of financial position as at 31 December 2021, the statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2021, and of the Company's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as required by the Crown Dependencies' Audit Rules and Guidance. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2020):

	The risk	Our response
Financial assets at fair value through profit or loss ("Investments") US$311.7 million; (31 December 2020: US$293.1 million) Refer to pages 32 to 34 (Report of the Audit Committee), note 2 (Significant Accounting Policies), note 3 (Use of Judgements and Estimates) and note 6 (Financial Assets at Fair Value Through Profit or Loss)	**Basis:** The Company holds investments in FOIF II LP ("Master Fund II") and FOMC III LP ("Master Fund III") (together the "Master Funds") which are designated at fair value through profit or loss and represents 99.7% of the Company's net assets. The fair value of the Company's investment in the Master Funds reflects the Company's proportionate share of the Master Funds' net asset value. Master Fund III's net asset value reflects its proportionate share of Master Fund II's net asset value. Master Fund II's net asset value incorporates the fair value of its own investment portfolio which comprises: Mezzanine and Equity Collateralised Loan Obligation ("CLO") positions (the "CLOs"); a Warehoused pre-CLO position (the "Warehouse") and a proportionate share of the net asset value of Wollemi Investments I LP ("Wollemi").	**Our audit procedures included:** **Control evaluation:** We assessed the design and implementation of the control over the valuation of the Company's Investments. **Evaluation of the Valuation Agent:** With the assistance of our KPMG valuation specialist we: • assessed the objectivity, capability and competence of the Valuation Agent engaged by Master Fund II and Wollemi to provide Price Quotes; and • assessed the methodology applied by the Valuation Agent in developing fair value Price Quotes.

Independent Auditor's Report to the Members of Fair Oaks Income Limited (continued)

Key Audit Matters: our assessment of the risks of material misstatement (continued)

The risk (continued)	Our response (continued)
Basis (continued)**:** Wollemi is also invested into a portfolio of Equity CLO positions and Cycad Investments LP ("Cycad"). The fair value of 82.7% of the CLOs held by Master Fund II and Wollemi are determined using indicative prices ("Price Quotes") obtained from their independent third party valuation provider (the "Valuation Agent"). 17.3% of the fair value of CLO's held by Master Fund II and Wollemi are determined using internally generated models. **Risk:** The valuation of the Company's Investments is considered a significant area of our audit, given that it represents the majority of the net assets of the Company. Inherent in that valuation is the use of significant estimates and judgements in determining the fair value of the underlying CLOs.	**Our audit procedures included** (continued)**:** **Valuation procedures, including use of KPMG valuation specialist:** • For the investment into the Master Funds, Master Fund II's investment into Wollemi and Wollemi's investment into Cycad we: – assessed whether the net asset values were representative of their fair values; – recalculated the proportionate share of the net asset values; – agreed the fair value to a net asset value statement received from that fund's administrator; – obtained the coterminous audited financial statements and agreed the audited net asset value to the net asset value statement; and – considered the basis of preparation of the audited financial statements, together with accounting policies applied and whether the audit opinion was unmodified. • We independently obtained the Valuation Agent's pricing reports and agreed the Price Quotes provided by the Valuation Agent to those used in the Valuation of the CLOs. • For 100% of the CLO positions held by Master Fund II and Wollemi, with the support of our KPMG valuation specialist, we determined independent reference prices through the use of fundamental cash flow modelling sourcing key inputs and assumptions used, such as default rates, prepayment rates and recovery rates from observable market data and agreed the outcome to the prices used in the valuation of the CLOs. • For the sole Warehouse position held by Master Fund II, we utilized, with the support of our KPMG valuation specialist, a Black Scholes option pricing model to assess the probability (as at 31 December 2021) of this position converting to a CLO and assessed the outcome against the Master Fund II's reference price. **Assessing disclosures:** We also considered the Company's disclosures in relation to use of estimates and judgements in determining the fair value of Investments (Note 3), the Company's Investment valuation policies (Note 2) and fair value disclosures (Note 6) for compliance with IFRS.

Independent Auditor's Report to the Members of Fair Oaks Income Limited (continued)

Our application of materiality and an overview of the scope of our audit
Materiality for the financial statements as a whole was set at US$6,420,000, determined with reference to a benchmark of net assets of US$312,525,046, of which it represents approximately 2% (31 December 2020: 2%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Company was set at 75% (31 December 2020: 75%) of materiality for the financial statements as a whole, which equates to US$4,815,000. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding US$321,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

Going concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of thefinancial statements (the "going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Company's financial resources or ability to continue operations over this period were:

- Availability of capital to meet operating costs and other financial commitments; and
- The recoverability of financial assets subject to credit risk.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in the notes to the financial statements to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Company's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or impacts on the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent Auditor's Report to the Members of Fair Oaks Income Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 30, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members, as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Steven Stormonth
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Guernsey

13 April 2022

FINANCIAL REPORT

Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	1 January 2021 to 31 December 2021 US$	1 January 2020 to 31 December 2020 US$
Revenue			
Net gains/(losses) on financial assets at fair value through profit or loss	6	65,240,126	(26,086,364)
Interest income	7	–	3,215
Net foreign exchange gains/(losses)		14,843	(94,218)
Total revenue		**65,254,969**	**(26,177,367)**
Expenses			
Investment advisory fees	8	3,820	106,768
Audit and interim review fees		117,092	101,753
Administration fees	8	116,934	144,580
Directors' fees and expenses	8	199,437	166,652
Broker fees		130,015	42,573
Registrar fees		84,735	38,715
Listing fees		15,545	64,133
Legal and professional fees		4,261	36,506
Other expenses		115,672	109,568
Total expenses		**787,511**	**811,248**
Profit/(loss) and total comprehensive income/(loss) for the year		**64,467,458**	**(26,988,615)**
Basic and diluted earnings/(losses) per 2021 Share/2017 Share	11	**0.1377**	**(0.0583)**
Basic and diluted earnings/(losses) per Realisation Share/2017 Shares	11	**0.1385**	**(0.0583)**

All items in the above statement are derived from continuing operations.

The accompanying notes on pages 45 to 73 form an integral part of the Financial Statements.

FINANCIAL REPORT

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2021

	Note	Share capital (Realisation Shares) US$	Share capital (2021 Shares) US$	Retained earnings (Realisation Shares) US$	Retained earnings (2021 Shares) US$	Total equity US$
At 1 January 2021		**444,922,074**	**–**	**(149,952,728)**	**–**	**294,969,346**
Total comprehensive income:						
Profit for the year		–	–	8,665,218	55,802,240	64,467,458
Total comprehensive income for the year		**–**	**–**	**8,665,218**	**55,802,240**	**64,467,458**
Transactions with Shareholders:						
Redesignation of 2017 shares into 2021 Shares during the year, net of issue costs	10	(385,670,377)	384,339,570	–	–	(1,330,807)
Transfer brought forward retained earnings from 2017 Shares to 2021 Shares	10	–	–	129,923,035	(129,923,035)	–
Dividends declared during the year	4	–	–	(6,100,252)	(39,480,699)	(45,580,951)
Total transactions with Shareholders		**(385,670,377)**	**384,339,570**	**123,822,783**	**(169,403,734)**	**(46,911,758)**
At 31 December 2021		**59,251,697**	**384,339,570**	**(17,464,727)**	**(113,601,494)**	**312,525,046**

	Note	Share capital (2017 Shares) US$	Retained earnings (2017 Shares) US$	Total equity US$
At 1 January 2020		**439,400,944**	**(96,242,034)**	**343,158,910**
Total comprehensive loss:				
Loss for the year		–	(26,988,615)	(26,988,615)
Total comprehensive loss for the year		**–**	**(26,988,615)**	**(26,988,615)**
Transactions with Shareholders:				
Issue of 2017 shares during the year, net of issue costs	10	5,521,130	–	5,521,130
Dividends declared during the year	4	–	(26,722,079)	(26,722,079)
Total transactions with Shareholders		**5,521,130**	**(26,722,079)**	**(21,200,949)**
At 31 December 2020		**444,922,074**	**(149,952,728)**	**294,969,346**

The accompanying notes on pages 45 to 73 form an integral part of the Financial Statements.

FINANCIAL REPORT

Statement of Financial Position

At 31 December 2021

	Note	31 December 2021 US$	31 December 2020 US$
Assets			
Cash and cash equivalents		1,294,271	2,397,636
Prepayments		97,627	28,800
Financial assets at fair value through profit or loss	6	311,699,203	293,083,595
Total assets		**313,091,101**	**295,510,031**
Liabilities			
Distributions received in advance		458,709	456,325
Trade and other payables		107,346	84,360
Total liabilities		**566,055**	**540,685**
Net assets		**312,525,046**	**294,969,346**
Equity			
Retained earnings		(131,066,221)	(149,952,728)
Share capital	10	443,591,267	444,922,074
Total equity		**312,525,046**	**294,969,346**
Net Assets attributable to 2021 Shareholders		**270,738,076**	**–**
Number of 2021 Shares	10	**405,165,477**	**–**
Net asset value per 2021 Share		**0.6682**	**–**
Net Assets attributable to Realisation Shareholders		**41,786,970**	**294,969,346**
Number of Realisation Shares	10	**62,562,883**	**467,728,360**
Net asset value per Realisation Share		**0.6679**	**0.6306**

The Financial Statements on pages 41 to 73 were approved and authorised for issue by the Board of Directors on 13 April 2022 and signed on its behalf by:

Jon Bridel
Director

The accompanying notes on pages 45 to 73 form an integral part of the Financial Statements.

FINANCIAL REPORT

Statement of Cash Flows

For the year ended 31 December 2021

	Note	1 January 2021 to 31 December 2021 US$	1 January 2020 to 31 December 2020 US$
Cash flows from/(used in) operating activities			
Profit/(loss) for the year		64,467,458	(26,988,615)
Adjustments to reconcile profit/(loss) to net cash flows:			
Net (gains)/losses on financial assets at fair value through profit or loss	6	(65,240,126)	26,086,364
Net foreign exchange (gains)/losses		(14,843)	94,218
		(787,511)	**(808,033)**
(Increase) in prepayments		(68,827)	(10,901)
Increase/(decrease) in trade and other payables		22,986	(5,325)
Income distributions received from Master Fund II	6	15,876,074	24,381,039
Income distributions received from Master Fund III	6	30,750,828	–
Capital contributions into Master Fund II during the year	6	–	(40,204,500)
Net cash flow from/(used in) operating activities		**45,793,550**	**(16,647,720)**
Cash flows from investing activities			
Sale of investment during the year		–	34,999,873
Net cash flow from investing activities		**–**	**34,999,873**
Cash flows used in financing activities			
Proceeds from 2017 share issuance, net of costs	10	–	5,521,130
Costs of redesignation of 2017 Shares into 2021 Shares and Realisation Shares during the year		(1,330,807)	–
Dividends paid during the year	4	(45,580,951)	(26,722,079)
Net cash flow used in financing activities		**(46,911,758)**	**(21,200,949)**
Net decrease in cash and cash equivalents		**(1,118,208)**	**(2,848,796)**
Cash and cash equivalents at beginning of year		2,397,636	5,340,650
Effect of foreign exchange rate changes during the year		14,843	(94,218)
Cash and cash equivalents at end of year		**1,294,271**	**2,397,636**

The accompanying notes on pages 45 to 73 form an integral part of the Financial Statements.

FINANCIAL REPORT

Notes to the Financial Statements

For the year ended 31 December 2021

1. GENERAL INFORMATION

Fair Oaks Income Limited (the "Company") was registered in Guernsey under the Companies (Guernsey) Law, 2008 on 7 March 2014. The Company's registration number is 58123 and it is regulated by the Guernsey Financial Services Commission as a registered closed-ended collective investment scheme under The Registered Collective Investment Scheme Rules and Guidance 2021. The Company is listed and began trading on the Specialist Fund Segment ("SFS") of the London Stock Exchange on 12 June 2014.

Reorganisation

On 19 April 2021, the Company announced the result of its reorganisation proposal, being that 62,562,883 2017 Shares had been elected for re-designation as Realisation Shares (the "Realisation Shares"), representing 13.4% of the 2017 Shares in issue, and 405,815,477 2017 Shares were re-designated as 2021 Shares (the "2021 Shares"), representing the balance of 86.6% of the 2017 Shares in issue (including 650,000 shares held in Treasury). The Company makes its investments through FOIF II LP (the "Master Fund II") and FOMC III LP (the "Master Fund III"), in both of which the Company is a limited partner (the "Master Fund II" and the "Master Fund III" together the "Master Funds"). The Master Fund II was registered in Guernsey on 24 February 2017 and the Master Fund III was registered in Guernsey on 10 March 2021 under The Limited Partnerships (Guernsey) Law, 1995. The purpose of the reorganisation was to allow those Shareholders who wished to extend the life of their investment in the Company beyond the planned end date of the Master Fund II, being 21 June 2026, and to be able to do so by having their 2017 Shares re-designated as 2021 Shares. These 2021 Shares investing in the new Master Fund III, which has a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of Master Fund II.

At 31 December 2021, the Company has 62,562,883 Realisation Shares and 405,165,477 2021 Shares in issue. The Realisation Shares invest solely into the Master Fund II and the 2021 Shares invest solely into the Master Fund III. At 31 December 2021, the Company had direct holdings of 9.59% (31 December 2020: 71.80%) in the Master Fund II and 100% holding in Master Fund III, which in turn had a holding of 62.21% in the Master Fund II. Together, the Company held a direct and indirect holding of 71.80% in the Master Fund II.

The Master Funds

During the year ended 31 December 2021, the Master Fund II allowed one new limited partner to enter the partnership (being the Master Fund III) and at 31 December 2021, the Master Fund II had six limited partners, including Fair Oaks Founder II LP, a related entity. At 31 December 2021, the Master Fund III had two limited partners, including Fair Oaks Founder VI LP. The General Partner of the Master Fund II and Master Fund III is Fair Oaks Income Fund (GP) Limited (the "General Partner" or "GP").

Cycad and Wollemi

The Master Fund II is also invested into Cycad Investments LP ("Cycad"). Cycad is a Limited Partnership registered in the United States of America on 2 June 2017. Aligned with the Company's investment policy, Cycad also invests into Collateral Loan Obligations ("CLOs"). On 9 March 2021, a new Guernsey limited partnership was established called Wollemi Investments I LP ("Wollemi"). On 23 March 2021, the Master Fund II transferred its investment in Cycad to Wollemi in exchange for limited partnership interests in Wollemi. In addition, during the year ended 31 December 2021, the Master Fund II also transferred its investments in FOAKS 1X CLO, FOAKS 2X CLO and FOAKS 3X CLO (the "Fair Oaks CLOs") to Wollemi in exchange for limited partnership interests in Wollemi. At 31 December 2021, the Master Fund II holds 100.00% (31 December 2020: nil) of the commitment capital of Wollemi.

Founder Partners

Fair Oaks Founder II LP, a Guernsey limited partnership, has been established to act as the Founder Limited Partner of Master Fund II. Fair Oaks Founder VI LP, a Guernsey limited partnership, has been established to act as the Founder Limited Partner of Master Fund III.

General Partner

The General Partner of the Master Fund II, Master Fund III, Cycad and Wollemi is Fair Oaks Income Fund (GP) Limited (the "General Partner" or "GP"). The Master Funds invest in portfolios consisting primarily of CLOs. The Company may also invest in Qualifying Short Term Investments if at any time the Company holds any uninvested cash.

With effect from 15 May 2014, Fair Oaks Capital Limited (the "Investment Adviser") was appointed as the Investment Adviser.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The Financial Statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and are in compliance with the Companies (Guernsey) Law, 2008 and the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Directive (as implemented in the UK through the Financial Services and Markets Authority).

Basis of Preparation

The Company's Financial Statements have been prepared on a historical cost convention, except for financial assets measured at fair value through profit or loss.

The preparation of Financial Statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and judgements are discussed in note 3. The principal accounting policies adopted are set out below.

The Directors believe that the Annual Report and Financial Statements contain all of the information required to enable shareholders and potential investors to make an informed appraisal of the investment activities and profit or loss of the Company for the period to which it relates and does not omit any matter or development of significance.

As explained below, the Company qualifies as an investment entity and is therefore not permitted to prepare consolidated Financial Statements under IFRS.

Going Concern

The Directors have assessed the financial position of the Company as at 31 December 2021 and the factors that may impact its performance (including the potential impact on markets and supply chains of geo-political risks such as the current crisis in Ukraine, the risk of further COVID-19 uncertainty and continuing macro-economic factors and inflation) in the forthcoming year.

COVID-19

The Directors are aware that further economic disruption caused by COVID-19 may mean there is an increased chance that the Master Funds' CLO investments, will experience higher loan defaults and CCC ratings, breach over-collateralisation tests and, as a result, withhold some quarterly distributions from some CLO noteholders. Furthermore, the Directors are well aware of the risk of cash flow diversion of the Master Funds' CLO investments so will not fully invest all available capital without leaving available liquidity for expenses. Despite this the Master Funds have continued to make income distributions to the Company throughout 2021, as the Master Funds' CLO investments continue to comply with their over-collateralisation tests and make cash distributions.

Russia/Ukraine crisis

The Master Funds CLO investments do not hold any securities in the Russia/Ukraine region and as such the performance or creditworthiness of the underlying CLOs are not expected be significantly impacted. Commodity prices due to the invasion of Ukraine (mainly oil/gas, metals and wheat) may impact some of the companies that the CLOs have loans to but many companies were already subject to input price inflation before the Ukraine invasion and it is not expected that the additional cost inflation will significantly impact the performance of the CLOs.

The Investment Adviser continues to carefully monitor the performance of the Master Funds investments, working closely with the Directors on current and emerging risks to the Company.

Following due consideration and after a review of the Company's holdings in cash and cash equivalents, investments and a consideration of the income deriving from, and the viability of, the investments in the Master Funds, the Directors believe that it is appropriate to adopt the going concern basis in preparing the Financial Statements, as the Company has adequate financial resources to meet its liabilities as they fall due for at least the 12 month period from the date of the approval of the Financial Statements.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards and interpretations adopted in the reporting period

The following standard and interpretation has been applied in these Financial Statements:

- Amendments to IFRS 9, IAS 39 and IFRS 7– Interest Rate Benchmark Reform (the Phase 2 amendments) (effective for periods commencing on or after 1 January 2021).

The impacts of the Interest Rate Benchmark Reform on the Master Funds CLO investments are detailed in Note 5. The adoption of this standard has not had a material impact on these Financial Statements.

New Accounting Standards and interpretations applicable to future reporting periods

At the date of approval of these Financial Statements, the following standards and interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective:

- IAS 1 (amended), "Presentation of Financial Statements" (amendments regarding the classification of liabilities, effective for periods commencing on or after 1 January 2023).
- Amendments to IFRS 3,"Business combinations" (effective for periods commencing on or after 1 January 2022) – The amendment adds a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination and adds an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.
- Amendments to IAS 37, "Provisions, contingent liabilities and contingent assets" (effective for periods commencing on or after 1 January 2022) – The changes in Onerous Contracts — Cost of Fulfilling a Contract specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'.
- Annual Improvements to IFRS Standards 2018-2020 (effective for periods commencing on or after 1 January 2022). In regard to IFRS 9, the amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability.
- IAS 1 (amended) "Presentation of Financial Statements" and IFRS Practice Statement 2 "Making Materiality Judgements" (effective for periods commencing on or after 1 January 2023). The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.
- Amendments to IAS 8 – "Accounting Policies, Changes in Accounting Estimates and Errors" (effective for periods commencing on or after 1 January 2023). The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The Directors expect that the adoption of these amended standards in a future period will not have a material impact on the Financial Statements of the Company.

Interest income

Interest income comprises interest income from cash and cash equivalents. Interest income is recognised on a time-proportionate basis using the effective interest method.

Net losses on Financial Assets at Fair Value through Profit or Loss

Net losses on financial assets at fair value through profit or loss includes all realised and unrealised fair value changes, foreign exchange gains/(losses) and income and capital distributions received.

Net realised (losses)/gains from financial assets at fair value through profit or loss are calculated using the average cost method.

Expenses

Expenses of the Company are charged through profit or loss in the Statement of Comprehensive Income on an accruals basis.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2021 Shares, Realisation Shares, 2017 Shares and C Shares

The 2021 shares, Realisation shares, 2017 shares (when in issue) and C shares (when in issue) of the Company are classified as equity based on the substance of the contractual arrangements and in accordance with the definition of equity instruments under IAS 32.

The proceeds from the issue of participating shares are recognised in the Statement of Changes in Shareholders' Equity, net of incremental issuance costs.

Financial Instruments

Financial Assets – Classification

The Company classifies its financial assets and financial liabilities into categories in accordance with IFRS 9.

On initial recognition, the Company classifies financial assets as measured at amortised cost or at fair value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

All other financial assets of the Company are measured at FVTPL.

In making an assessment of the objective of the business model in which a financial asset is held, the Company considers all of the relevant information about how the business is managed.

The Company has determined that it has two business models.

– *Held-to-collect business model:* this includes cash and cash equivalents, prepayments and distributions receivable. These financial assets are held to collect contractual cash flow.
– *Other business model:* this includes investments in the Master Funds and derivatives. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

The Investment entities exception to consolidation ("Investment entities exception") in IFRS 10 'Consolidated Financial Statements' ("IFRS 10") requires subsidiaries of an investment entity to be accounted for at fair value through profit or loss in accordance with IFRS 9 'Financial Instruments' ("IFRS 9").

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

A non-derivative financial asset with fixed or determinable payments could be classified as a loan and receivable unless it was quoted in an active market or was an asset for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Financial liabilities – Classification

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at amortised cost:

This includes trade and other payables.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial Assets and Liabilities - recognition, measurement and gains and losses

Financial assets and financial liabilities are measured initially at fair value, being the transaction price, including transaction costs for items that will subsequently be measured at amortised cost, on the trade date. Transaction costs on financial assets at fair value through profit or loss are expensed immediately.

Subsequent measurement

After initial measurement, the Company measures financial instruments classified at fair value through profit or loss at their fair values. Changes in fair value are recognised in "Net gains/(losses) on financial assets at fair value through profit or loss" in the Statement of Comprehensive Income.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IFRS 9. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Investments in the Master Fund III and the Master Fund II

The Board of Directors (the "Board") has determined that the Company has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund III, and then indirectly the Master Fund II, as the Company is the main limited partner in the Master Fund III and indirectly (via its investment in the Master Fund III) is the main limited partner in the Master Fund II, is exposed and has rights to the returns of the Master Fund III (and indirectly in the Master Fund II) and has the ability either directly, or through the Investment Adviser, to affect the amount of its returns from the Master Fund III (and indirectly in the Master Fund II).

The Investment entities exemption requires that an investment entity that has determined that it is a parent under IFRS 10 shall not consolidate certain of its subsidiaries; instead it is required to measure its investment in these subsidiaries at fair value through profit or loss in accordance with IFRS 9.

The criteria which defines an investment entity are as follows:

- An entity has obtained funds from one or more investors for the purpose of providing those investors with investment management services;
- An entity has committed to its investors that its business purpose is to invest funds solely for the returns from capital appreciation, investment income or both; and
- An entity measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company provides investment management services and has a number of investors who pool their funds to gain access to these services and investment opportunities that they might not have had access to individually. The Company, being listed on the SFS of the London Stock Exchange, obtains funding from a diverse group of external shareholders.

Consideration is also given to the time frame of an investment. An investment entity should not hold its investments indefinitely but should have an exit strategy for their realisation. As both the Master Fund III's and Master Fund II's investments have documented maturity/redemption dates or will be sold if other investments with better risk/reward profile are identified, the Board of Directors consider that this demonstrates a clear exit strategy.

The Master Fund III and Master Fund II measure and evaluate the performance of substantially all of their investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to Board of Directors, who use fair value as a significant measurement attribute to evaluate the performance of its investments and to make investment decisions for mature investments.

The Company has determined that the fair value of the Master Fund III is the Master Fund III's Net Asset Value ("NAV"), and incorporated into the Master Fund III's NAV is the Master Fund II NAV. The Company also determined that the fair value of the Master Fund II is the Master Fund II's NAV.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Investments in the Master Fund III and the Master Fund II (continued)
The Company, via its investments in the Master Funds, is also invested into Wollemi and Cycad. The Company has determined that the fair value of the Wollemi is the Wollemi's Net Asset Value ("NAV"), and incorporated into the Wollemi's NAV is the Cycad NAV.

The Company has concluded that the Master Fund III, and then indirectly the Master Fund II, for which the Company's commitment is detailed further in Note 13, meet the definition of unconsolidated subsidiaries under IFRS 12 'Disclosure of Interests in Other Entities' ("IFRS 12") and have made the necessary disclosures in notes 5 and 6 of these Financial Statements.

Foreign Currency
Functional and presentation currency
The Board of Directors has determined that the functional currency of the Company is US Dollar. In doing so, they have considered the following factors: that US Dollar is the currency of the primary economic environment of the Company, the currency in which the original finance was raised and distributions will be made, the currency that would be returned if the Company was wound up, and the currency to which the majority of the underlying investments are exposed. The Financial Statements of the Company are presented in US Dollars, which has been selected as the presentation currency of the Company.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the reporting date when fair value was determined.

Dividends
Dividends payable to the holders of 2021 Shares and Realisation Shares are recorded through the Statement of Changes in Shareholders' Equity when they are declared to the respective shareholders. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by the Companies (Guernsey) Law, 2008.

Segmental Reporting
The Board has considered the requirements of IFRS 8 – "Operating Segments". The Company has entered into an Investment Advisory Agreement with the Investment Adviser under which the Investment Adviser is responsible for the management of the Company's investment portfolio, subject to the overall supervision of the Board of Directors. Subject to its terms and conditions, the Investment Advisory Agreement requires the Investment Adviser to manage the Company's investment portfolio in accordance with the Company's investment guidelines as in effect from time to time, including the authority to purchase and sell securities and other investments and to carry out other actions as appropriate to give effect thereto. However, the Board retains full responsibility to ensure that the Investment Adviser adheres to its mandate. Moreover, the Board is fully responsible for the appointment and/or removal of the Investment Adviser. Accordingly, the Board is deemed to be the "Chief Operating Decision Maker" of the Company.

In the Board of Directors' opinion, the Company is engaged in a single segment of business, being investments into the Master Fund II and the Master Fund III (31 December 2020: Master Fund II only), which are Guernsey registered limited partnerships.

Segment information is measured on the same basis as that used in the preparation of the Company's Financial Statements.

The Company receives no revenues from external customers, nor holds any non-current assets, in any geographical area other than Guernsey.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

3. USE OF JUDGEMENTS AND ESTIMATES

The preparation of Financial Statements in accordance with IFRS requires the Board of Directors to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses, disclosure of contingent assets and liabilities at the date of the Financial Statements and income and expenses during the year. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The principal estimates and judgements made by the Board are as follows:

Judgements

Investment Entity

In accordance with the Investment Entities exemption contained in IFRS 10, the Board has determined that the Company satisfies the criteria to be regarded as an investment entity and as a result measures its investments in the Master Fund III and Master Fund II at fair value. This determination involves a degree of judgement (see note 2).

Estimates

Fair Value

The Company records its investments in the Master Fund III and the Master Fund II at fair value. Fair value is determined as the Company's share of the NAV of the investment. This share is net of any notional carried interest due to Fair Oaks Founder VI LP (the "Founder Partner VI"), the Founder Partner of Master Fund III and Fair Oaks Founder II LP (the "Founder Partner II"), the Founder Partner of Master Fund II. The Investment Adviser has reviewed the NAV of the investment and determined that no adjustments regarding liquidity discounts were required.

4. DIVIDENDS

The Company's policy is to declare dividends to 2021 and Realisation shareholders as follows:

2021 Shares

The Board intends to pay quarterly dividends to holders of 2021 Shares representing an amount in aggregate at least equal to the gross income received by the Company from investments in the relevant financial year that are attributable to the 2021 Shares' interest in Master Fund III and qualifying short term investments, less a proportionate share of the expenses of the Company.

Realisation Shares

The Company intends to pay dividends to holders of Realisation Shares representing an amount in aggregate at least equal to the gross income from investments received by the Company in the relevant financial period attributable to the Realisation Shares' interest in Master Fund II and qualifying short term Investments, less expenses of the Company.

The Company declared the following dividends per 2021 Share during the year ended 31 December 2021:

Period to	Payment date	Dividend rate per 2021 share (cents)	Net dividend payable (US$)	Record date	Ex-dividend date
31 December 2020	26 February 2021	2.50	10,148,155	12 February 2021	11 February 2021
31 March 2021	25 June 2021	2.25	9,104,882	28 May 2021	27 May 2021
30 June 2021	17 September 2021	2.50	10,108,820	20 August 2021	19 August 2021
30 September 2021	18 November 2021	2.50	10,118,842	5 November 2021	4 November 2021
		9.75	39,480,699		

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

4. DIVIDENDS (continued)

The Company declared the following dividends per Realisation Share during the year ended 31 December 2021:

Period to	Payment date	Dividend rate per 2021 share (cents)	Net dividend payable (US$)	Record date	Ex-dividend date
31 December 2020	26 February 2021	2.50	1,564,499	12 February 2021	11 February 2021
31 March 2021	25 June 2021	2.25	1,407,662	28 May 2021	27 May 2021
30 June 2021	17 September 2021	2.50	1,564,019	20 August 2021	19 August 2021
30 September 2021	18 November 2021	2.50	1,564,072	5 November 2021	4 November 2021
		9.75	6,100,252		

At 31 December 2021, the Company's retained earnings include unrealised losses of US$117,326,326 (31 December 2020: US$135,941,934) (see note 6). Gross income from investments excludes these unrealised losses which are capital in nature.

The Company declared the following dividends per 2017 Share during the year ended 31 December 2020:

Period to	Payment date	Dividend rate per 2017 share (cents)	Net dividend payable (US$)	Record date	Ex-dividend date
31 December 2019	30 January 2020	0.70	3,172,231	17 January 2020	16 January 2020
31 January 2020	27 February 2020	0.70	3,160,025	14 February 2020	13 February 2020
29 February 2020	26 March 2020	0.70	3,118,598	13 March 2020	12 March 2020
Quarter to 30 June 2020	20 August 2020	1.50	7,014,282	7 August 2020	6 August 2020
Quarter to 30 September 2020	19 November 2020	2.20	10,256,943	6 November 2020	5 November 2020
		5.80	26,722,079		

The default currency payment for dividends is US Dollars. However, with effect from 29 June 2016, shareholders could elect to receive their dividends in British Pounds Sterling ("Sterling") by registering under the Company's Dividend Currency Election.

The rate per 2021 Share and Realisation Share to be used to pay shareholders who elect to receive their dividend in Sterling is announced on the London Stock Exchange each month prior to the payment date.

Under Guernsey law, companies can pay dividends in excess of accounting profit provided they satisfy the solvency test prescribed by the Companies (Guernsey) Law, 2008. The solvency test considers whether a company is able to pay its debts when they fall due, and whether the value of a company's assets is greater than its liabilities. The Company passed the solvency test for each dividend paid.

Total dividends payable as at 31 December 2021 were US$Nil (31 December 2020: US$Nil).

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

5. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities. Below is a non-exhaustive summary of the risks that the Company is exposed to as a result of its use of financial instruments:

Market Risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and equity prices, affecting the Company's income and/or the value of its holdings in financial instruments.

The Company's exposure to market risk comes mainly from movements in the value of its investments in the Master Funds and on a look-through basis to the underlying loans in each CLO.

Changes in credit spreads may further affect the Company's net equity or net income directly through their impact on unrealised gains or losses on investments within the Master Funds and on a look-through basis to the underlying loans in each CLO.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on investments. The Company's strategy for the management of market risk mirrors the strategy of the Master Funds, driven by their investment objective to generate attractive, risk-adjusted returns, principally through income distributions, by seeking exposure to US and European CLOs or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating rate senior secured loans and which may include non-recourse financing. The Company's market risk is managed on a daily basis by the Investment Adviser in accordance with policies and procedures in place.

The Company intends to mitigate market risk generally by not making investments that would cause it to have exposure to a single corporate issuer exceeding 5% of the Master Funds' aggregate gross assets at the time of investment. Special Purpose Vehicles such as CLOs are not considered corporate issuers. The Company's market positions are monitored on a quarterly basis by the Board of Directors.

Interest Rate Risk

The Company is exposed to interest rate risk through the investments held by the Master Funds and on a look-through basis to the underlying assets in the CLOs.

Interest receivable by the Company on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates, however, the underlying cash positions will not be affected.

A majority of the Company's financial assets comprise investments into the Master Fund II and the Master Fund III, which invest in income notes: Equity Subordinated and Mezzanine tranches of cash flow CLOs. The Master Fund II's exposure, and the Master Fund III's indirect exposure via its investment in the Master Fund II, to interest rate risk is significantly mitigated by the fact that the majority of the underlying loans in each CLO bear interest at floating Libor/Term SOFR-based rates.

Interest rate benchmark reform

On 31 December 2021, Libor settings for GBP, Euro, Swiss Franc, Japanese Yen and 1-week and 2-month USD were discontinued. The remaining USD Libor settings will be discontinued after 30 June 2023 and from 1 January 2022, no new loans or securities are expected to be issued referencing USD Libor. The Alternative Reference Rates Committee convened by the US Federal Reserve Board and the New York Fed has designated Term SOFR (Secured Overnight Funding Rate) as the official replacement for USD Libor.

The Master Funds have exposure to USD CLOs which reference USD Libor.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)
Interest Rate Risk (continued)

USD Subordinated CLO Notes
Subordinated Notes of USD CLOs accounted for 58% of the Master Funds investments as at 31 December 2021. All of these CLOs had rated liabilities that paid interest based on USD Libor and the documentation of all but one of these CLOs includes provisions for the liabilities to switch to Term SOFR (as the designated replacement rate) when USD Libor is no longer available or when Term SOFR is referenced by over 50% of the loan market. The one CLO held by the Master Fund II which does not include such provisions was issued in 2017. To the extent that the Master Fund II has not exercised its option to liquidate this CLO prior to June 2023 and no amendment has been agreed with its rated noteholders, the CLO's rated liabilities would continue to pay interest based on the last available USD Libor rate.

As at 31 December 2021, 98% of the loans held by the CLOs (in which the Master Funds hold Subordinated Notes) paid interest based on USD Libor and 2% paid interest based on Term SOFR. It is expected that the percentage of loans referencing SOFR will gradually increase during 2022 and the first half of 2023 as new SOFR-based loans are issued and Libor-based loans are repaid or amended to reference SOFR ahead of the cessation of all USD Libor in June 2023.

The quarterly distributions to holders of Subordinated Notes of a CLO depend primarily on the difference between the interest received on the CLO's loan assets and the interest paid on the CLO's rated liabilities. Distributions on the Master Funds USD Subordinated Notes during 2022 and the first half of 2023 may thus be influenced by changes in the basis (difference) between USD Libor and Term SOFR.

USD Mezzanine CLO Notes
USD CLO Mezzanine Notes accounted for 9% of the Master Funds investments as at 31 December 2021. All of these notes paid interest based on USD Libor as at 31 December 2021. The majority of these notes include provisions for the liabilities to switch to Term SOFR (as the designated replacement rate) when USD Libor is no longer available or when Term SOFR is referenced by over 50% of the loan market. The notes which do not include this language will continue to pay interest based on the latest available USD Libor rate unless they are redeemed or amended prior to June 2023.

EUR Subordinated and Mezzanine Notes
The EUR Subordinated and Mezzanine CLO Notes held by the Master Funds, and indirectly through Wollemi, and their underlying loan assets reference Euribor (not Euro Libor) so are unaffected by the cessation of Libor settings. There are no plans to discontinue Euribor.

The following table shows the portfolio profile of the Master Funds at 31 December 2021 and 31 December 2020:

	31 December 2021		31 December 2020
	Master Fund III[1] US$	Master Fund II[2] US$	Master Fund II[3] US$
Investments with exposure to a floating interest rate	269,884,334	41,814,869	293,083,595
Financial assets at fair value through profit or loss (note 6)	**269,884,334**	**41,814,869**	**293,083,595**

[1]At 31 December 2021, shows the Master Fund II's exposure in the underlying CLO investments via the Company's Master Fund III share through the 2021 Shares. Source: CLO trustee reports. Based on the Master Funds exposure and weighted by CLO size and Master Funds ownership percentage.
[2]Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.
[3]At 31 December 2020, shows the Company's proportionate direct share in the Master Fund II at 71.80%.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

The following table shows the Board of Directors' best estimate of the Company's share of the sensitivity of the portfolio of the Master Funds to stressed changes in interest rates, with all other variables held constant. The table assumes parallel shifts in the respective forward yield curves.

Possible reasonable change in rate US$	31 December 2021 effect on net assets and profit or loss US$	Possible reasonable change in rate US$	31 December 2020 effect on net assets and profit or loss US$
-1%	7,231,099	-1%	1,067,458
1%	152,694	1%	(1,401,974)

At 31 December 2021 the CLOs in which the Master Funds holds equity, have liabilities with US Dollar Libor/Term SOFR floors at zero and loan assets with Libor floors of up to 1%. With US Dollar Libor/Term SOFR at circa 0.25%, if US Dollar Libor/Term SOFR goes down, the interest on the liabilities drops by more than the interest on the interest floored loans, producing more residual cash flow for equity.

Currency risk

The Company is exposed to very limited currency risk, as the majority of its assets and liabilities are denominated in US Dollars.

The Company is exposed indirectly to currency risk through its investment into the Master Fund II. The Master Fund II's portfolio is denominated in US Dollar and Euro. Accordingly, the value of such assets may be affected, favourably or unfavourably, by fluctuations in currency rates which, if unhedged, could have the potential to have a significant effect on returns. To reduce the impact of currency fluctuations and the volatility of returns which may result from currency exposure, the Investment Adviser hedges the currency exposure of the assets of the Master Fund II. At 31 December 2021, as the Master Fund III's only investment is in the Master Fund II which is denominated in US Dollar, it therefore did not have any significant direct currency exposure as the Master Fund II had already hedged its currency exposure of the Euro assets.

The Company's share of the Master Fund II and the Master Fund III's total net foreign currency exposure at the year end was as follows:-

	31 December 2021 Master Fund III[1] US$	31 December 2021 Master Fund II[2] US$	31 December 2020 Master Fund II[3] US$
EUR Exposure			
Cash and cash equivalents	851,960	131,334	–
Other receivables	4,758,568	733,558	–
Trade and other payables	(50,180)	(7,735)	(75,093)
Derivatives at fair value through profit or loss	(90,553,336)	(13,959,275)	(122,085,234)
Financial assets at fair value through profit and loss	91,957,687	14,175,763	136,128,705
Net EUR Exposure	**6,964,699**	**1,073,645**	**13,968,378**

[1]At 31 December 2021, shows the Master Fund II's exposure in the underlying CLO investments via the Company's 2021 Shares through the Master Fund III. Source: CLO trustee reports. Based on the Master Funds exposure and weighted by CLO size and Master Funds ownership percentage.
[2]Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.
[3]At 31 December 2020, shows the Company's proportionate direct share in the Master Fund II at 71.80%.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Currency risk (continued)

	31 December 2021 Master Fund III[1] US$	31 December 2021 Master Fund II[2] US$	31 December 2020 Master Fund II[3] US$
GBP Exposure			
Trade and other payables	(110,716)	(17,067)	(40,433)
Net GBP Exposure	**(110,716)**	**(17,067)**	**(40,433)**
NET EXPOSURE	**6,853,983**	**1,056,578**	**13,927,945**

	Possible change in exchange rate	31 December 2021 net exposure US$	31 December 2021 effect on net assets and profit or loss US$
EUR/US Dollar	+/- 10%	8,038,345	(-/+) 808,835
GBP/US Dollar	+/- 10%	(127,783)	(-/+) 12,778

	Possible change in exchange rate	31 December 2020 net exposure US$	31 December 2020 effect on net assets and profit or loss US$
EUR/US Dollar	+/- 15%	13,968,377	(-/+) 2,109,454
GBP/US Dollar	+/- 20%	(40,433)	(-/+) 8,087

The sensitivity rate of 10% (31 December 2020: 15%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Euro.

The sensitivity rate of 10% (31 December 2020: 20%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Sterling.

Other price risks

There is a risk that the fair value of future cash flows, on a look-through basis to the underlying CLOs, will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Board of Directors does not believe that the returns on investments are correlated to any specific index or other price variable.

If the value of the Company's investment in the Master Fund III were to increase or decrease by 10%, the impact on the NAV of the Company would be +/- US$26,988,433.

If the value of the Company's investment in the Master Fund II were to increase or decrease by 10% (31 December 2020: 50%), the impact on the NAV of the Company would be +/- US$4,181,487 (31 December 2020: US$146,541,798).

At 31 December 2021, the sensitivity rate of 10% (31 December 2020: 50%) is regarded as reasonable due to the actual market price volatility experienced on the Master Funds' CLO investments during the year.

Credit and Counterparty Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, the Master Fund III, Master Fund II or a vehicle in which the Master Fund III or Master Fund II invests, resulting in a financial loss to the Company. Credit risk arises principally from debt securities held, and also from derivative financial assets and cash and cash equivalents. For risk management reporting purposes, the Company considers and aggregates all elements of credit risk exposure (such as individual obligation default risk, country risk and sector risk).

[1]At 31 December 2021, shows the Master Fund II's exposure in the underlying CLO investments via the Company's 2021 Shares through the Master Fund III. Source: CLO trustee reports. Based on the Master Funds exposure and weighted by CLO size and Master Funds ownership percentage.
[2]Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.
[3]At 31 December 2020, shows the Company's proportionate direct share in the Master Fund II at 71.80%.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

The Company's policy on credit risk mirrors that of the Master Fund III and the Master Fund II, which is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the Company's prospectus, and by taking collateral.

The table below analyses the Company's maximum exposure to credit risk in relation to the components of the Statement of Financial Position.

	31 December 2021 US$	31 December 2020 US$
Cash and cash equivalents	1,294,271	2,397,636
Financial assets at fair value through profit or loss	311,699,203	293,083,595
	312,993,474	**295,481,231**

At 31 December 2021, there were no financial assets past due or impaired (31 December 2020: none).

At 31 December 2021, the cash and cash equivalents and other assets of the Company, excluding its investments into the Master Fund III and Master Fund II, and substantially all of the assets of the Master Fund II are held by BNP Paribas Securities Services S.C.A. (the "Custodian"). The cash and substantially all of the assets of the Master Fund III are held by U.S. Bank Global Corporate Trust Services, UK Branch (the "US Bank"). Bankruptcy or insolvency of the Custodian or US Bank may cause the Company's rights with respect to securities held by the Custodian or US Bank to be delayed or limited. This risk is managed by monitoring the credit quality and financial positions of the Custodian or US Bank. The long-term rating of the Custodian as at 31 December 2021 was Aa3 as rated by Moody's (31 December 2020: Aa3) and A+ by Standard & Poor's (31 December 2020: AA-). The long-term rating of US Bank as at 31 December 2021 was A1 as rated by Moody's and AA- by Standard & Poor's.

Credit risk is assessed from time to time by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser seeks to manage this risk by providing diversification in terms of underlying assets, issuer section, geography and maturity profile. The Master Funds concentration of credit risk by industry for the CLO investments, on a look-through basis, as at 31 December 2021 and 31 December 2020 are summarised in the table below. The Company's credit risk is monitored on a quarterly basis by the Board of Directors.

The Master Funds have diversified their exposure to industry sectors. The top 10 are as follows:

	31 December 2021 Master Fund II[1] %	31 December 2020 Master Fund II[2] %
Industry		
Healthcare & Pharmaceuticals	14.1	12.9
Services: Business	9.4	8.9
High Tech Industries	8.6	8.8
Bank, Finance, Insurance & Real Estate	6.9	6.7
Telecommunications	5.9	6.4
Beverage, Food & Tobacco	4.9	5.1
Services: Consumer	4.9	5.1
Construction & Building	4.9	3.9
Chemical, Plastics & Rubber	4.5	4.7
Capital Equipment	4.0	3.4
	68.1	**65.9**

[1]At 31 December 2021, shows the Master Fund II's exposure in the underlying CLO investments via the Company's Master Fund III share through the 2021 Shares and direct share through the Realisation Shares. Source: CLO trustee reports. Based on the Master Funds' exposure and weighted by CLO size and Master Funds' ownership percentage.
[2]At 31 December 2020, shows the Company's proportionate direct share in the Master Fund II at 71.80%.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

The Master Funds' exposure to credit risk relating to the underlying CLO investments based on the country of registration (not necessarily asset class exposure) as at 31 December 2021 and 31 December 2020 is summarised below. Master Funds' exposure to credit risk, also summarised below, relates to its directly held CLO investments and its investments into Wollemi and Cycad based on the country of registration of the CLO investments and the Limited Partnerships (not necessarily asset class exposure) as at 31 December 2021 and 31 December 2020.

	31 December 2021 Master Fund III[1] US$	31 December 2021 Master Fund II[2] US$	31 December 2020 Master Fund II[4] US$
United States of America	165,616,113	25,530,599	155,963,615
Europe	27,112,311	4,179,506	136,128,705
Guernsey	64,845,378	9,996,257	6,148
Financial assets at fair value through profit or loss (note 6)	**257,573,802**	**39,706,362**	**292,098,468**

The geographical breakdown of the underlying CLO investments is as follows:

	31 December 2021 Master Fund II[3] %	31 December 2020 Master Fund II[4] %
United States of America	72.4	61.3
France	6.1	8.8
United Kingdom	5.5	6.9
Netherlands	3.6	4.9
Germany	3.0	6.0
Luxembourg	1.8	1.2
Spain	1.5	2.8
Canada	1.3	1.6
Switzerland	1.1	1.4
Italy	0.7	1.3
Other	3.0	3.8
Total	**100.0**	**100.0**

The table below summarises the Master Fund II's underlying portfolio concentrations as of 31 December 2021 and 31 December 2020:

	Maximum portfolio holdings of a single asset % of total portfolio	Average portfolio holdings % of total portfolio
31 December 2021		
Master Fund II	7.17%	2.13%
31 December 2020		
Master Fund II	11.58%	1.92%

[1]Shows the Company's 2021 Shares proportionate share, via the Master Fund III, in the Master Fund II at 62.21%.
[2]Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.
[3]Shows the Master Fund II's exposure in the underlying CLO investments via the Company's Master Fund III share through the 2021 Shares and direct share through the Realisation Shares.
[4]At 31 December 2020, shows the Company's proportionate direct share in the Master Fund II at 71.80%.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

The tables below summarises the Master Fund II's portfolio by asset class and portfolio ratings as at 31 December 2021 and 31 December 2020:

By asset class	31 December 2021 Master Fund III[1] US$	31 December 2021 Master Fund II[2] US$	31 December 2020 Master Fund II[4] US$
Equity Subordinated CLO notes	162,543,277	25,056,905	196,722,183
Mezzanine CLO notes	30,185,147	4,653,200	89,966,369
Limited Partnerships	64,845,378	9,996,257	5,409,916
Financial assets at fair value through profit or loss (note 6)	**257,573,802**	**39,706,362**	**292,098,468**

The breakdown of the underlying CLO investments by rating is as follows:

Rating	31 December 2021 Master Fund II[3] %	31 December 2020 Master Fund II[4] %
B	30.7	33.7
B-	27.7	21.4
B+	14.0	12.3
BB-	7.4	8.6
BB	4.3	4.1
CCC+	3.1	3.7
BB+	1.8	1.9
CCC	1.2	1.3
CCC-	0.3	0.3
BBB-	0.1	0.5
D	0.0	0.2
NA	9.4	12.0
Total	**100.0**	**100.0**

Activities undertaken by the Company, Master Fund III and Master Fund II may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions, settlement risk is mitigated by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's policy and the Investment Adviser's approach to managing liquidity is to ensure, as far as possible, that the Company will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the Company's reputation.

[1]Shows the Company's 2021 Shares proportionate share, via the Master Fund III, in the Master Fund II at 62.21%.
[2]Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.
[3]Shows the Master Fund II's exposure in the underlying CLO investments via the Company's Master Fund III share through the 2021 Shares and direct share through the Realisation Shares.
[4]At 31 December 2020, shows the Company's proportionate direct share in the Master Fund II at 71.80%.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The Company's liquidity risk is managed on a daily basis by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser monitors and considers the Company's and the Master Funds cash balances, projected expenses and projected income from investments when making any new investment recommendations.

Given the Company's permanent capital structure as a closed-ended fund, it is not exposed to redemption risk. However, the Company's financial instruments include indirect investments in CLOs, and may include over-the-counter derivative contracts, which are not traded in an organised public market and which may be illiquid.

The Company's overall liquidity risk is monitored on a quarterly basis by the Board of Directors. Shareholders have no right of redemption and must rely, in part, on the existence of a liquid market in order to realise their investment.

All liabilities of the Company are due within one financial year.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's activities relating to financial instruments, either internally or on the part of service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

Operational risk is managed so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers.

The Board of Directors' assessment of the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions with the service providers and a review of the service providers' Service Organisation Controls ("SOC") 1 reports on internal controls, if available.

Substantially all of the assets of the Company and Master Fund II are held by BNP Paribas Securities Services S.C.A., Guernsey Branch, in its capacity as the Custodian. Master Fund III assets are held in custody by U.S. Bank Global Corporate Trust Services, UK Branch (together the "Custodians"). The bankruptcy or insolvency of the Custodians may cause the Company's rights with respect to the securities held by the Custodians to be limited. The Investment Adviser monitors the credit ratings and capital adequacy of the Custodians on a quarterly basis, and reviews the findings documented in the SOC 1 report on the internal controls annually.

Capital Management

The Board of Director's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. The Company's capital is represented by the 2021 Shares and Realisation Shares. In the prior year, the Company's capital was represented by 2017 Shares, see note 10 for details of the share issuance and re-designation that took place during the year. Capital is managed in accordance with the investment policy, in pursuit of its investment objectives.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	1 January 2021 to 31 December 2021		
	2021 Shares US$	Realisation Shares US$	Total Company US$
Cost of financial assets at fair value through profit or loss at the start of the period	–	429,025,529	429,025,529
Sale of investments in Master Fund II at cost during the year	–	(371,719,138)	(371,719,138)
Purchase of investments in Master Fund III at cost during the year	371,719,138	–	371,719,138
Cost of financial assets at fair value through profit or loss at the end of the year	371,719,138	57,306,391	429,025,529
Net unrealised losses on financial assets at the end of the year	(101,834,804)	(15,491,522)	(117,326,326)
Financial assets at fair value through profit or loss at the end of the year	**269,884,334**	**41,814,869**	**311,699,203**
Movement in net unrealised loss during the year	16,129,058	2,486,550	18,615,608
Income distributions declared from the Master Fund II during the year	9,959,936	6,104,589	16,064,525
Income distributions declared from the Master Fund III during the year	30,559,993	–	30,559,993
Net gains on financial assets at fair value through profit or loss	**56,648,987**	**8,591,139**	**65,240,126**

The sale of Master Fund II and purchase of Master Fund III shown in the table above are non-cash transactions following the re-designation of 2017 Shares to 2021 Shares and Realisation Shares on 22 April 2021. On this date, in accordance with the Contribution Agreement dated 26 March 2021, the Company subscribed to a commitment amount equal to the 2021 Shares proportionate ownership of the Company into the Master Fund III. The Company made such an advance in kind, by transferring in specie to the Master Fund III its proportionate share of the Master Fund II. Following this transaction, and at 31 December 2021, the Company had a 100% holding of the limited partnership interests in the Master Fund III on behalf of the 2021 Shares, which in turn had a holding of 62.21% in the Master Fund II. The Company also retained a direct holding of 9.59% (31 December 2020: 71.80%) in the Master Fund II on behalf of the Realisation Shares.

	31 December 2020 2017 Shares US$
Cost of financial assets at fair value through profit or loss at the start of the year	426,885,179
Purchase of investments in Master Fund II at cost during the year	40,204,500
Sale of UCITS investment during the year	(34,999,873)
Realised loss on sale of UCITS investments during the year	(3,064,277)
Cost of financial assets at fair value through profit or loss at the end of the year	429,025,529
Net unrealised losses on financial assets at the end of the year	(135,941,934)
Financial assets at fair value through profit or loss at the end of the year	**293,083,595**
Realised loss on sale of UCITS investments during the year	(3,064,277)
Movement in net unrealised loss during the year	(45,778,713)
Income distributions declared from Master Fund II during the year	22,756,626
Net losses on financial assets at fair value through profit or loss	**(26,086,364)**

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Look-through financial information: Master Funds' profit or loss movements

The following tables reconcile the Company's proportionate share of the Master Funds' financial assets at fair value through profit or loss to the Company's financial assets at fair value through profit or loss:

	31 December 2021		
	Master Fund III[1]	**Master Fund II[2]**	**Total Company**
	US$	**US$**	**US$**
Financial assets at fair value through profit or loss	271,170,675	39,706,362	310,877,037
Add: Other net current (liabilities)/assets	(1,286,341)	2,108,507	822,166
Total financial assets at fair value through profit or loss	**269,884,334**	**41,814,869**	**311,699,203**

	31 December 2020
	Master Fund II[3]
	US$
Financial assets at fair value through profit or loss	292,098,468
Less: Net current assets	985,127
Total financial assets at fair value through profit or loss	**293,083,595**

The Company's proportionate share of the unrealised gains/(losses) on investments in the year comprises the following movements within the underlying investments:

	1 January 2021 to 31 December 2021		
	Master Fund III[1]	**Master Fund II[2]**	**Total Company**
	US$	**US$**	**US$**
Net unrealised losses on investments at the beginning of the year	–	(135,941,934)	(135,941,934)
Unrealised losses attributable to 2021 Shares	(107,852,694)	107,852,694	–
Investment income	–	17,044,052	17,044,052
Income distributions received from Master Fund II	29,465,544	–	29,465,544
Unrealised gains on financial assets at fair value through profit or loss	7,295,057	4,648,628	11,943,685
Realised gains on financial assets at fair value through profit or loss	–	2,128,755	2,128,755
Net gains on derivative financial instruments and foreign exchange	–	5,748,418	5,748,418
Other income	–	3,286	3,286
Expenses	(182,718)	(910,897)	(1,093,615)
Income distributions declared during the year	(30,559,993)	(16,064,525)	(46,624,515)
Net unrealised losses on investments at the end of the year	**(101,834,804)**	**(15,491,522)**	**(117,326,326)**

[1]Shows the Company's proportionate direct share in the Master Fund III at 100.00% through 2021 Shares investment only.
[2]Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.
[3]Shows the Company's proportionate direct share in the Master Fund II at 71.80% through 2017 Shares.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Look-through financial information: Master Funds' profit or loss movements (continued)

	31 December 2020 Master Fund II US$
Net unrealised losses on investments at the beginning of the year	(90,222,573)
Investment income	41,425,839
Income distributions received from Master Fund	1,195,154
Income distributions received from Cycad	302,367
Unrealised losses on financial assets at fair value through profit or loss	(51,289,064)
Realised losses on financial assets at fair value through profit or loss	(1,274,359)
Net losses on derivative financial instruments and foreign exchange	(11,024,561)
Other income	223,135
Expenses	(2,521,247)
Income distributions declared during the year	(22,756,625)
Net unrealised losses on investments at the end of the year	**(135,941,934)**

IFRS 13 requires that a fair value hierarchy be established that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are set as follows:

– Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;

– Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

– Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data that is readily available, regularly distributed or updated, reliable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The following table analyses within the fair value hierarchy the Company's financial assets (by class, excluding cash and cash equivalents, prepayments, distribution receivable, dividends payable and other payables) measured at fair value:

	31 December 2021			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets:				
Financial assets at fair value through profit or loss	–	–	311,699,203	311,699,203
Total	**–**	**–**	**311,699,203**	**311,699,203**

	31 December 2020			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets:				
Financial assets at fair value through profit or loss	–	–	293,083,595	293,083,595
Total	**–**	**–**	**293,083,595**	**293,083,595**

The investment in the Master Fund III and Master Fund II (31 December 2020: Master Fund II only), which are fair valued at each reporting date, have been classified within Level 3 as they are not traded and contains unobservable inputs.

The following table presents the movement in Level 3 instruments:

	31 December 2021 US$	**31 December 2020 US$**
Opening Balance	293,083,595	298,598,457
Purchase of investments in Master Fund II	–	40,204,500
Sale of investments in Master Fund II	(371,719,138)	–
Purchase of investments in Master Fund III	371,719,138	–
Movement in net unrealised gain/(loss) during the year	18,615,608	(45,719,362)
Closing Balance	**311,699,203**	**293,083,595**

Transfers between Level 1, 2 and 3

There have been no transfers between levels during the year ended 31 December 2021 or 31 December 2020. Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

Look-through financial information: Master Funds' fair value hierarchy information

On a look-through basis, the following table analyses within the fair value hierarchy the Company's proportionate share of the Master Funds' financial assets and derivatives (by class, excluding cash and cash equivalents, other receivables and prepayments, distribution payable, carried interest payable and trade and other payables) measured at fair value:

	31 December 2021			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Master Fund III[1]				
Financial assets at fair value through profit or loss	–	–	271,170,675	271,170,675
Total	**–**	**–**	**271,170,675**	**271,170,675**

[1]Shows the Company's proportionate direct share in the Master Fund III at 100.00% through 2021 Shares investment only.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Look-through financial information: Master Funds' fair value hierarchy information (continued)

		31 December 2021		
	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Master Fund II[1]				
Financial assets at fair value through profit or loss	–	4,179,506	35,526,856	39,706,362
Derivatives at fair value through profit or loss	–	84,802	–	84,802
Total	**–**	**4,264,308**	**35,526,856**	**39,791,164**

		31 December 2020		
	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Master Fund II[2]				
Financial assets at fair value through profit or loss	–	54,562,173	237,536,295	292,098,468
Derivatives at fair value through profit or loss	–	(3,093,679)	–	(3,093,679)
Total	**–**	**51,468,494**	**237,536,295**	**289,004,789**

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2021:

Security	Fair Value US$	Valuation methodology	Unobservable inputs	Ranges
Master Fund III[3]	269,884,334	NAV	Zero % discount	N/A
Master Fund II[1]	41,814,869	NAV	Zero % discount	N/A
	311,699,203			

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2020:

Security	Fair Value US$	Valuation methodology	Unobservable inputs	Ranges
Master Fund II[2]	293,083,595	NAV	Zero % discount	N/A
	293,083,595			

[1]Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.
[2]Shows the Company's proportionate share in the Master Fund II at 71.80% at 31 December 2020.
[3]Shows the Company's proportionate direct share in the Master Fund III at 100.00% through 2021 Shares investment only.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The Master Funds have engaged an independent third party to provide valuations for its CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund II's investments categorised in Level 3 as at 31 December 2021:

Asset Class	Fair Value US$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Master Fund III[1]					
Limited Partnerships					
Master Fund II	271,170,675	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US$27,117,068
	271,170,675				

The Master Funds have engaged an independent third party to provide valuations for its CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund II's investments categorised in Level 3 as at 31 December 2021:

Asset Class	Fair Value US$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Master Fund II[2]					
Income Notes CLOs					
United States of America	25,530,599	Prices provided by a third party agent	US$0.0001 - US$0.9866	US$0.6437	10% increase/decrease will have a fair value impact of +/- US$2,553,060
Limited Partnerships					
Wollemi	9,996,257	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US$999,626
	35,526,856				

[1]Shows the Company's proportionate direct share in the Master Fund III at 100.00% through 2021 Shares investment only.
[2]Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund II's investments categorised in Level 3 as at 31 December 2020:

Asset Class	Fair Value US$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Master Fund II[1]					
CLO Income Notes					
United States of America	150,559,848	Prices provided by a third party agent	US$0.3900 - US$0.9958	US$0.6638	50% increase/decrease will have a fair value impact of +/- US$75,279,924
Europe	78,783,736	Prices provided by a third party agent	€0.6300 - €0.9600	€0.8162	50% increase/decrease will have a fair value impact of +/- US$39,391,861
CLO Sub Fee Notes					
Europe	2,782,795	Prices provided by a third party agent	€1.2500 - €2.7700	€1.6114	50% increase/decrease will have a fair value impact of +/- US$1,391,398
Limited Partnerships					
Master Fund	6,148	Zero % discount	N/A	N/A	50% increase/decrease will have a fair value impact of +/- US$3,074
Cycad	5,403,768	Zero % discount	N/A	N/A	50% increase/decrease will have a fair value impact of +/- US$2,701,884
	237,536,295				

[1]Shows the Company's proportionate direct share in the Master Fund II at 71.80%.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

7. INTEREST INCOME

	For the year ended 31 December 2021 US$	For the year ended 31 December 2020 US$
Interest income on financial assets carried at amortised cost:		
Cash and cash equivalents	–	3,215
	–	**3,215**

8. RELATED PARTIES AND OTHER KEY CONTACTS

Transactions with Investment Adviser and Investment Portfolio Investor

Investment Adviser

Fair Oaks Capital Limited (the "Investment Adviser") is entitled to receive an investment advisory fee from the Company of 1% per annum of the NAV of the Company, in accordance with the Amended and Restated Investment Advisory Agreement dated 9 March 2017 (the "Investment Advisory Agreement"). The investment advisory fee is calculated and payable on the last business day of each month or on the date of termination of the Investment Advisory agreement. The base investment advisory fee will be reduced to take into account any fees received by the Investment Adviser incurred by the Company in respect of its investments in the Master Fund III and Master Fund II (31 December 2020: Master Fund II and indirectly the Master Fund), (taking into account any rebates of such management fees to the Company) in respect of the same relevant period.

The net investment advisory fee during the year is as follows:

	For the year ended 31 December 2021 US$	For the year ended 31 December 2020 US$
Company investment advisory fee	2,317,886	2,117,962
Less: Master fund II rebate	(2,310,494)	(1,967,530)
Less: Master fund III rebate	(3,572)	–
Less: Master fund rebate	–	(43,664)
Net Company investment advisory fee	**3,820**	**106,768**

In circumstances where, as at the date the Net Asset Value per share of the 2021 Shares with respect to the last calendar month of a calendar quarter (the "Quarter End 2021 NAV") is published, the price of the 2021 Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End 2021 NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an Associate of it of (a) 25 per cent. of the fees which it shall receive with respect to that quarter from the Company pursuant to the agreement which is attributable to the Net Asset Value of the 2021 Shares and (b) 25 per cent. of the management fee which the General Partner shall receive with respect to that quarter from Master Fund II and Master Fund III which is attributable to the Net Asset Value of the 2021 Shares by, in each case, using its best endeavours to purchase or procure the purchase of 2021 Shares in the Company in the secondary market. The obligation to purchase or procure the purchase of such 2021 Shares shall be fulfilled by the Investment Adviser by no later than one month after the end of such calendar quarter. The Investment Adviser will have no obligation to reinvest and/or procure the reinvestment of fees it receives with respect to a calendar quarter in circumstances where: (i) the 2021 Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV; or (ii) where the 2021 Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV and it is unable to purchase or procure the purchase of 2021 Shares in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV despite having used its best endeavours to do so; or (iii) the Master Fund III Commitment Period has already expired, and, in each case, the Investment Adviser shall retain all fees it receives for such quarter.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

Transactions with Investment Adviser and Investment Portfolio Investor (continued)

Investment Adviser (continued)

In circumstances where, as at the date of the Net Asset Value per share of the Realisation Shares with respect to the last calendar month of a calendar quarter (the "Quarter End Realisation NAV") is published, the price of the Realisation Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End Realisation NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an Associate of it of (a) 25 per cent. of the fees which is received with respect to that quarter from the Company pursuant to the agreement which is attributable to the Net Asset Value of the Realisation Shares and (b) 25 per cent. of the Master Fund II Management Fee which the General Partner shall receive in respect to that quarter from Master Fund II which is attributable to the Net Asset Value of the Realisation Shares by, in each case, using its best endeavours to purchase or procure the purchase of Realisation Shares in the secondary market. The obligation to purchase or procure the purchase of Realisation Shares shall be fulfilled by the Investment Adviser by no later than one month after the end of such calendar quarter.

The Investment Adviser will have no obligation to reinvest and/or procure the reinvestment of fees it receives with respect to a calendar quarter in circumstances where either: (i) the Realisation Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV; or (ii) where the Realisation Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV and it is unable to purchase or procure the purchase of Realisation Shares in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV despite having used its best endeavours to do so and, in either case, the Investment Adviser shall retain all fees it receives for such quarter.

On 21 April 2021, 2 August 2021 and 22 October 2021, the General Partner purchased 231,061, 186,133 and 194,000 2021 Shares respectively in the secondary market by way of reinvesting 25% of the quarter's investment advisory fees. On 22 January 2020 and 23 October 2020, the General Partner purchased 271,851 and 266,842 2017 Shares respectively in the secondary market by way of reinvesting 25% of the quarter's investment advisory fees.

The Investment Advisory Agreement can be terminated by either party giving not less than 6 months written notice.

Fair Oaks CLOs

During the year ended 31 December 2021, the Master Fund II transferred its investments in the Fair Oaks CLOs to Wollemi in exchange for limited partnership interests in Wollemi. In addition, the Master Fund II transferred its risk retention holder requirements for the Fair Oaks CLOs to Wollemi during the year. As risk retention holder, Wollemi is required to retain, on an ongoing basis, a material net economic interest in the Fair Oaks CLOs of not less than 5%.

At 31 December 2021, Wollemi had investments in FOAKS 1X CLO, FOAKS 2X CLO, FOAKS 3X CLO and FOAKS 4X CLO Limited valued at €22,630,204, €27,537,544, €26,682,043 and €32,947,186 respectively. The Investment Adviser to the Company also acts as collateral manager to the Fair Oaks CLOs. At 31 December 2020, the Master Fund II had investments in FOAKS 1X CLO, FOAKS 2X CLO and FOAKS 1X valued at €22,417,985, €48,412,123 and €42,772,670 respectively. The Investment Adviser to the Company also acts as collateral manager to the Fair Oaks CLOs.

Founder Partners

The Master Fund II and Master Fund III also pay the Founder Partner II and Founder Partner VI a carried interest equal to 15 per cent of cash available to be distributed (after payment of expenses and management fees) after limited partners have received a Preferred Return. The threshold calculation of the Preferred Return will be based solely on distributions and not on NAV calculations so the Master Fund II and Master Fund III will not pay any carried interest until their investors have realised the amounts drawn down for investments and met their Preferred Returns. At 31 December 2021, no carried interest was accrued at the Master Fund III level. At 31 December 2021, US$nil (31 December 2020: US$nil) carried interest was accrued at Master Fund II level in respect of the Company's limited partnership interest.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

Other Material Contracts

Administrator

Sanne Fund Services (Guernsey) Limited (formerly Praxis Fund Services Limited) (the "Administrator") is entitled to receive a time-based fee quarterly in arrears for all Company Secretarial services. The Administrator is also entitled to an annual fee of US$32,320 (31 December 2020: US$32,320), payable quarterly in arrears for Administration and Accounting services. The Administrator is also entitled to an annual fee of £500 in relation to FATCA reporting acting as responsible officer.

Effective 3 December 2021, the fund services division of PraxisIFM Group was acquired by Sanne Group and effective 6 December 2021, Praxis Fund Services Limited changed its name to Sanne Fund Services (Guernsey) Limited.

Custodian

BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") waived all fees on the basis that all assets are invested into the Master Fund II.

Directors' Fees

The Company's Board of Directors are entitled to a fee in remuneration for their services as Directors at a rate payable of £43,000 each per annum (31 December 2020: £43,000). In addition, as detailed in the Prospectus announced by the Company on 28 March 2021, a one-off payment of £5,000 ("one-off payment") is payable to the Directors relating to work performed in connection with the publication of Prospectus, such fee increasing by an additional £2,500 (i.e. bringing this one-off payment to £7,500) if the total gross amounts raised under the Placing Programme exceeded US$100 million.

The overall charge for the above-mentioned fees for the Company and the amounts due are as follows:

	For the year ended 31 December 2021 US$	For the year ended 31 December 2020 US$
CHARGE FOR THE YEAR		
Investment adviser fee	3,820	106,768
Administration fee	116,934	144,580
Directors' fees and expenses	199,437	166,652
OUTSTANDING FEES		
Investment adviser fee	–	1,563
Administration fee	34,375	2,806

Shares held by related parties

The shareholdings of the Directors' in the Company were as follows:

	31 December 2021		31 December 2020	
Name	**No. of 2021 Shares**	**Percentage**	**No. of 2017 Shares**	**Percentage**
Professor Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel[1]	40,000	0.01%	40,000	0.00%
Nigel Ward	60,000	0.01%	60,000	0.01%

On 9 September 2020, a person closely associated with Jon Bridel, purchased 30,303 2017 Shares in the Company on the SFS of the London Stock Exchange. During January 2021, Jon Bridel transferred all shares registered in his name to his spouse.

As at 31 December 2021, the Investment Adviser, the General Partner and principals of the Investment Adviser and General Partner held an aggregate of 3,703,825 2021 Shares (31 December 2020: 3,092,631 2017 Shares), which is 0.91% (31 December 2020: 0.66%) of the issued 2021 share capital.

[1]Jon Bridel's spouse, as a person closely associated with Jon Bridel, is the registered holder of these shares.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

9. TAX STATUS

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £1,200 (31 December 2020: £1,200) under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989.

10. SHARE CAPITAL

The Company's 2021 Shares and Realisation Shares (31 December 2020: 2017 Shares) are classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction in equity and are charged to the share capital account, including the initial set up costs.

During April 2020, the Company announced an issue to satisfy market demand of 15,029,623 new 2017 Shares at an issue price of US$0.372 per new 2017 Share.

During April 2021, of the 468,378,360 original 2017 Shares in issue, 62,562,883 2017 Shares were re-designated as Realisation Shares and 405,815,477 2017 Shares (including 650,000 shares held in Treasury) were re-designated as 2021 Shares.

On 22 April 2021, 405,815,477 2021 Shares and 62,562,883 Realisation Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange.

The authorised share capital of the Company is represented by an unlimited number of ordinary shares of nil par value and have the following rights:

(a) Dividends: Shareholders of a particular class or tranche are entitled to receive, and participate in, any dividends or other distributions relating to the assets attributable to the relevant class or tranche which are resolved to be distributed in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.

(b) Winding Up: On a winding up, the shareholders of a particular class or tranche shall be entitled to the surplus assets attributable to that class or tranche remaining after payment of all the creditors of the Company.

(c) Voting: Subject to any rights or restrictions attached to any class or tranche of shares, at a general meeting of the Company, on a show of hands, every holder of voting shares present in person or by proxy and entitled to vote shall have one vote, and on a poll every holder of voting shares present in person or by proxy shall have one vote for each share held by him, but this entitlement shall be subject to the conditions with respect to any special voting powers or restrictions for the time being attached to any class or tranche of shares which may be subject to special conditions. Refer to the Memorandum and Articles of Incorporation for further details.

(d) Buyback: The Company may acquire its own shares (including any redeemable shares). Any shares so acquired by the Company may be cancelled or held as treasury shares provided that the number of shares of any class held as treasury shares must not at any time exceed ten per cent. (or such other percentage as may be prescribed from time to time by the States of Guernsey Committee for Economic Development) of the total number of issued shares of that class. Any shares acquired in excess of this limit shall be treated as cancelled.

Issued Share Capital

2021 Shares

	31 December 2021		31 December 2020	
	Shares	**US$**	**Shares**	**US$**
Share capital at the beginning of the year	–	–	–	–
Re-designation from 2017 Shares into 2021 Shares during the year	405,165,477	385,492,327	–	–
Share capital conversion costs	–	(1,152,757)	–	–
Share capital at the end of the year	**405,165,477**	**384,339,570**	**–**	**–**

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

10. SHARE CAPITAL (continued)

Issued Share Capital (continued)
Realisation Shares

	31 December 2021		31 December 2020	
	Shares	**US$**	**Shares**	**US$**
Share capital at the beginning of the year	467,728,360	444,922,074	452,698,737	439,400,944
Re-designation into 2021 Shares during the year	(405,165,477)	(385,492,327)	–	–
Share capital issued during the year	–	–	15,029,623	5,591,020
Share capital conversion/issued costs	–	(178,050)	–	(69,890)
Share capital at the end of the year	**62,562,883**	**59,251,697**	**467,728,360**	**444,922,074**

The total number of 2021 Shares in issue, as at 31 December 2021 was 405,815,477, of which 650,000 2021 Shares were held in treasury, and the total number of 2021 shares in issue excluding treasury shares were 405,165,477.

The total number of Realisation Shares in issue, as at 31 December 2021 was 62,562,883, of which no shares were held in treasury.

At 31 December 2021, the Company has 467,728,360 total voting rights.

The total number of 2017 Shares in issue, as at 31 December 2020 was 468,378,360, of which 650,000 shares were held in treasury, and the total number of shares in issue excluding treasury shares were 467,728,360. At 31 December 2020, the Company had 467,728,360 total voting rights.

11. EARNINGS PER SHARE

	For the year ended 31 December 2021		For the year ended 31 December 2020
	2021 Shares	**Realisation Shares**	**2017 Shares**
Weighted average number of shares	405,165,477	62,562,883	462,946,236
Profit/(loss) for the financial year	US$55,802,240	US$8,665,218	US$(26,988,615)
Basic and diluted earnings/(losses) per share	US$0.1377	US$0.1385	US$(0.0583)

For the year ended 31 December 2021, profits for the year have been allocated as follows:

- Expenses are apportioned 86.6% to 2021 Shares and 13.4% to Realisation Shares;
- Income for the period from 1 January 2021 to 22 April 2021, has been apportioned 86.6% to 2021 Shares and 13.4% to Realisation Shares;
- Income for the period from 23 April 2021 to 31 December 2021, is based on the share classes' respective ownership of, and distributions received from, the Master Fund II and Master Fund III.

The weighted average number of shares as at 31 December 2021 is based on the number of 2021 Shares and Realisation Shares in issue during the period under review, as detailed in Note 10. The weighted average number of 2021 Shares and Realisation Shares for the period from 1 January 2021 to 22 April 2021, have been apportioned 86.6% to 2021 Shares and 13.4% to Realisation Shares.

The weighted average number of shares as at 31 December 2020 is based on the number of 2017 Shares in issue during the year under review, as detailed in Note 10.

FINANCIAL REPORT

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

12. TRADE AND OTHER PAYABLES

	31 December 2021 US$	31 December 2020 US$
Investment advisory fees payable (note 8)	–	1,563
Audit fees payable	29,476	51,946
Administration fees payable (note 8)	34,375	2,806
Sundry expenses payable	46,495	28,045
	110,346	**84,360**

13. CONTINGENT LIABILITIES AND COMMITMENTS

The Company entered into a Subscription Agreement with Master Fund III and agreed to become a Limited Partner and made a commitment to Master Fund III of US$264,000,000 of which US$ US$263,875,619 had been called.

The Company entered into a Subscription Agreement with Master Fund II and agreed to become a Limited Partner and made a commitment to Master Fund II of US$452,346,532 (31 December 2020: US$452,346,532) of which US$432,982,362 (31 December 2020: US$432,982,362) had been called. With effect from 22 April 2021, the Company's 2021 Shares commitment to Master Fund II is on an indirect basis through the Master Fund III. The Master Fund II commitment period ended on 12 June 2021.

At 31 December 2021 and 31 December 2020, the Company had no other outstanding commitments.

14. SUBSEQUENT EVENTS

On 31 January 2022, the Company announced that following the announcement of the NAV as at 31 December 2021, Fair Oaks Income Fund (GP) had purchased 200,885 2021 Shares in the secondary market. The Company's 2021 Prospectus states that in the event that the 2021 Shares trade at a discount to any quarter end NAV, calculated on the date the NAV is published, 25% of that quarter's investment management fees (in respect of the 2021 Shares) will be reinvested to purchase 2021 Shares in the secondary market.

On 7 February 2022, the Company declared an interim dividend of 2.50 cents per 2021 Share and 2.50 cents per Realisation Share in respect of the quarter ended 31 December 2021. The ex-dividend date was 17 February 2022 and the dividend was paid on 18 March 2022.

In February 2022, Russia launched an invasion of Ukraine. In addition to the humanitarian and geopolitical consequences, the invasion has caused volatility in global financial markets and increased expectations of supply chain disruption and cost inflation for oil, gas, metals, grains, vegetable oils and other raw materials. The CLOs in which the Master Funds invest do not hold any loans of Russian, Ukrainian or Belarusian borrowers. The borrowers to which the CLOs are exposed have low direct exposure to Russia, Ukraine or Belarus but the profitability of some of them may be impacted by increased input cost inflation. Manufacturers have already been experiencing high input cost inflation during 2021 and have been largely successful in passing cost increases through to their customers but this may become more difficult in an environment of extreme cost inflation and weaker consumer confidence.

There were no other significant events since the year end which would require revision of the figures or disclosures in the Financial Statements.

ADDITIONAL INFORMATION

Portfolio Statement (unaudited)

As at 31 December 2021

CLO Equity

Security	Instrument	Par Value Master Fund II[1]	Valuation
AIMCO 2017-A SUB	Subordinated Notes	US$19,443,440	77.00%
ALLEG 2017-2X SUB	Subordinated Notes	US$28,630,250	58.00%
ALLEG 2021-1X SUB	Subordinated Notes	US$19,525,292	78.00%
ARES 2015-35R	Subordinated Notes	US$18,668,000	65.00%
AWPT 2017-6X SUB	Subordinated Notes	US$21,575,900	36.00%
SIGNAL PEAK CLO 1	Subordinated Notes	US$4,540,807	52.00%
FAIR OAKS IV FUNDING	Subordinated Notes	€20,104,000	100.00%
FOAKS 1X M	Subordinated Fee Notes	€718,000	0.01%
FOAKS 1X SUB	Subordinated Notes	€20,104,000	74.45%
FOAKS 1X Z	Subordinated Fee Notes	€0	4,162,070%
FOAKS 2X M	Subordinated Fee Notes	€718,000	0.01%
FOAKS 2X SUB	Subordinated Notes	€33,746,000	54.66%
FOAKS 2X Z	Subordinated Fee Notes	€211,609	627.00%
FOAKS 3X M	Subordinated Fee Notes	€718,000	0.01%
FOAKS 3X SUB	Subordinated Notes	€25,130,000	70.62%
FOAKS 3X Z	Subordinated Fee Notes	€235,026	600.00%
HLM 13X-2018 SUB	Subordinated Notes	US$18,632,100	43.00%
SIGNAL PEAK CLO 2	Subordinated Notes	US$4,693,868	42.00%
SIGNAL PEAK CLO 3	Subordinated Notes	US$4,428,562	59.00%
MARNR 2017-4 SUB	Subordinated Notes	US$26,243,063	52.00%
POST 2018-1X SUB	Subordinated Notes	US$28,204,835	73.00%
ROCKT 2021-2X SUB	Subordinated Notes	US$17,591,000	84.00%
SHACK 2018-12 SUB	Subordinated Notes	US$21,540,000	62.00%
WELF 2018-1X SUB	Subordinated Notes	US$20,732,250	62.00%
WELF 2021-2X SUB	Subordinated Notes	US$20,822,000	71.00%

CLO Mezzanine

Security	Instrument	Par Value Master Fund II[1]	Valuation
APID 2018-18A F	Class F Notes	US$2,872,000	88.78%
DRSLF 2017-49A F	Class F Notes	US$3,302,800	91.73%
DRSLF 2017-53A F	Class F Notes	US$3,590,000	91.78%
EGLXY 2018-6X F	Class F Notes	€3,051,500	93.88%
HARVT 11X FR	Class F Notes	€1,795,000	92.11%
HARVT 7X FR	Class F Notes	€1,256,500	94.60%
HLM 13X-2018 F	Class F Notes	US$4,119,525	87.25%
JPARK 2016-1A ER	Class E Notes	US$1,436,000	97.11%
MDPK 2016-20A FR	Class F Notes	US$2,872,000	95.53%
OCT39 2018-3A F	Class F Notes	US$6,462,000	91.90%
OHECP 2015-4X FR	Class F Notes	€1,823,002	89.33%
SYMP 2018-19A F	Class F Notes	US$3,949,000	86.67%

[1]Shows the Company's 2021 Shares proportionate share, via the Master Fund III, in the Master Fund II at 62.21% and the Company's direct holding in the Master Fund II at 9.59%. 2021 Shares and Realisation Shares proportionate share together at 71.20%. Also includes Master Fund II's 100% share in Wollemi and its 14.96% interest in Cycad.

ADDITIONAL INFORMATION

Management and Administration

Directors
Professor Claudio Albanese (Independent non-executive Chairman)
Jon Bridel (Independent non-executive Director)
Nigel Ward (Independent non-executive Director)

Registered Office and Business Address
Sarnia House
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Guernsey GY1 1GR

Administrator and Secretary
Sanne Fund Services (Guernsey) Limited
(formerly Praxis Fund Services Limited)
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Investment Adviser
Fair Oaks Capital Limited
1 Albemarle Street
London W1S 4HA

Registrar
Link Market Services (Guernsey) Limited
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Legal Advisers in Guernsey
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Carey House
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St Peter Port
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Legal Advisers in United Kingdom
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Custodian and Principal Bankers
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Independent Auditor
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Glategny Court
Glategny Esplanade
St Peter Port
Guernsey GY1 1WR

Joint Bookrunners, Joint Brokers and Joint Financial Advisers
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Liberum Capital Limited
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London EC2Y 9LY

ADDITIONAL INFORMATION

Appendix

Alternative Performance Measures used in the Financial Statements

- **Total NAV return**
  Total NAV return is a calculation showing how the NAV per 2021 Share and Realisation Share has performed over a period of time, taking into account dividends paid to shareholders. It is calculated on the assumption that dividends are reinvested, on an accumulative basis from inception of the Company, at the prevailing NAV on the last day of the month that the shares first trade ex-dividend. The performance is evaluated on a original shareholding of 1000 shares on inception of the Company (12 June 2014). This provides a useful measure to allow shareholders to compare performances between investment funds where the dividend paid may differ.

2021 Shares		**For the year ended 31 December 2021**	**For the year ended 31 December 2020**
Opening NAV per 2021 Share		US$0.6306	US$0.7580
Opening accumulated number of 2021 Shares*	(a)	2,110.9 shares	1,915.3 shares
Opening NAV valuation of shares	(b)	US$1,331.1	US$1,451.8
Dividends paid during the year		US$0.0975	US$0.0580
Dividends converted to shares**	(c)	333.5 shares	195.6 shares
Closing NAV per 2021 share		US$0.6682	US$0.6306
Closing accumulated number of 2021 Shares* (d = a + c)	(d)	2,444.4 shares	2,110.9 shares
Closing NAV valuation of shares	(e)	US$1,633.4	US$1,331.1
NAV valuation of shares return (f = e – b)	(f)	US$302.2	(US$120.7)
Total NAV return (g = (f / b) x 100)	(g)	**22.7%**	**(8.3%)**

*with dividends reinvested since inception (12 June 2014)
**converted to 2021 Shares at the prevailing month end NAV ex-dividend for all dividends paid during the year.

Realisation Shares		**For the year ended 31 December 2021**	**For the year ended 31 December 2020**
Opening NAV per Realisation Share		US$0.6306	US$0.7580
Opening accumulated number of Realisation Shares*	(a)	2,110.9 shares	1,915.3 shares
Opening NAV valuation of shares	(b)	US$1,331.1	US$1,451.8
Dividends paid during the year		US$0.0975	US$0.0580
Dividends converted to shares**	(c)	333.8 shares	195.6 shares
Closing NAV per Realisation share		US$0.6679	US$0.6306
Closing accumulated number of Realisation Shares* (d = a + c)	(d)	2,444.7 shares	2,110.9 shares
Closing NAV valuation of shares	(e)	US$1,632.8	US$1,331.1
NAV valuation of shares return (f = e – b)	(f)	US$301.7	(US$120.7)
Total NAV return (g = (f / b) x 100)	(g)	**22.7%**	**(8.3%)**

*with dividends reinvested since inception (12 June 2014)
**converted to Realisation Shares at the prevailing month end NAV ex-dividend for all dividends paid during the year.

ADDITIONAL INFORMATION

Appendix (continued)

Alternative Performance Measures used in the Financial Statements (continued)

- **Total share price return**
  Total share price return is a calculation showing how the share price per 2021 Share and Realisation Share has performed over a period of time, taking into account dividends paid to shareholders. It is calculated on the assumption that dividends are reinvested, on an accumulative basis from inception of the Company, at the prevailing share price on the last day of the month that the shares first trade ex-dividend. The performance is evaluated on a original shareholding of 1000 shares on inception of the Company (12 June 2014). This provides a useful measure to allow shareholders to compare performances between investment funds where the dividend paid may differ.

2021 Shares		**For the year ended 31 December 2021**	**For the year ended 31 December 2020**
Opening share price per 2021 Share		US$0.6175	US$0.6775
Opening accumulated number of 2021 Shares*	(a)	2,094.4 shares	1,889.4 shares
Opening share price valuation of shares	(b)	US$1,293.3	US$1,280.1
Dividends paid during the year		US$0.0975	US$0.0580
Dividends converted to shares**	(c)	327.7 shares	205.0 shares
Closing share price per 2021 share		US$0.6225	US$0.6175
Closing accumulated number of 2021 Shares* (d = a + c)	(d)	2,422.0 shares	2,094.4 shares
Closing share price valuation of shares	(e)	US$1,507.7	US$1,293.3
Valuation of shares return (f = e – b)	(f)	US$214.5	US$13.2
Total share price return (g = (f / b) x 100)	(g)	**16.6%**	**1.0%**

*with dividends reinvested since inception (12 June 2014)
**converted to 2021 Shares at the prevailing month end share price ex-dividend for all dividends paid during the year.

Realisation Shares		**For the year ended 31 December 2021**	**For the year ended 31 December 2020**
Opening share price per Realisation Share		US$0.6175	US$0.6775
Opening accumulated number of Realisation Shares*	(a)	2,094.4 shares	1,889.4 shares
Opening share price valuation of shares	(b)	US$1,293.3	US$1,280.1
Dividends paid during the year		US$0.0975	US$0.0580
Dividends converted to shares**	(c)	315.3 shares	205.0 shares
Closing share price per Realisation share		US$0.7000	US$0.6175
Closing accumulated number of Realisation Shares* (d = a + c)	(d)	2,409.6 shares	2,094.4 shares
Closing share price valuation of shares	(e)	US$1,686.7	US$1,293.3
Valuation of shares return (f = e – b)	(f)	US$393.5	US$13.2
Total share price return (g = (f / b) x 100)	(g)	**30.4%**	**1.0%**

*with dividends reinvested since inception (12 June 2014)
**converted to Realisation Shares at the prevailing month end NAV ex-dividend for all dividends paid during the year.

ADDITIONAL INFORMATION

Appendix (continued)

Alternative Performance Measures used in the Financial Statements (continued)

- **2021 and Realisation Share (discount)/premium to NAV**
  2021 and Realisation Share (discount)/premium to NAV is the amount by which the 2021 and Realisation Share price is lower/higher than the NAV per 2021 and Realisation Share, expressed as a percentage of the NAV per 2021 and Realisation Share, and provides a measure of the Company's share price relative to the NAV.

- **Ongoing charges ratio ("OCR")**
  The ongoing charges ratio of an investment company is the annual percentage reduction in shareholder returns as a result of recurring operational expenditure. Ongoing charges are classified as those expenses which are likely to recur in the foreseeable future, and which relate to the operation of the company, excluding investment transaction costs, gains or losses on investments and performance fees. In accordance with the AIC guidance, the proportionate charges for the period are also incorporated from investments in other funds. As such charges for:

1. **2021 Shares** – from the Master Fund III a weighted average percentage for the period of 100%, the Master Fund II at a weighted average percentage for the period of 62.21%, Wollemi at a weighted average percentage for the period of 62.21% and Cycad Investments LP at a weighted average percentage for the period of 9.31% are included.
2. **Realisation Shares** – from the Master Fund II a weighted average percentage for the period of 9.59%, Wollemi at a weighted average percentage for the period of 9.59% and Cycad Investments LP at a weighted average percentage for the period of 1.44% are included.
3. **2017 Shares for 31 December 2020** – the Master Fund II a weighted average percentage for the year of 80.32%, the Master Fund at a weighted average percentage for the year of 53.17% and Cycad Investments LP at weighted average percentage for the year of 12.02% are included.

Performance fees or carried interest from the underlying funds are not included. The OCR is calculated as the total ongoing charges for a period divided by the average net asset value over that period/year.

2021 Shares	**For the year ended 31 December 2021**		
	Company US$	**Master Funds[1] US$**	**Total US$**
Total expenses	682,320	3,241,427	3,923,747
Non-recurring expenses	–	(246,520)	(246,520)
Total ongoing expenses	682,320	2,994,907	3,677,227
Average NAV	271,982,050		271,982,050
Ongoing charges ratio (using AIC methodology)	**0.25%**		**1.35%**

Realisation Shares	**For the year ended 31 December 2021**		
	Company US$	**Master Funds[1] US$**	**Total US$**
Total expenses	105,191	470,082	575,273
Non-recurring expenses	–	(15,221)	(15,221)
Total ongoing expenses	105,191	454,861	560,052
Average NAV	41,947,976		41,947,976
Ongoing charges ratio (using AIC methodology)	**0.25%**		**1.34%**

[1]Master Funds includes FOMC III LP, FOIF II LP, Wollemi and Cycad.

ADDITIONAL INFORMATION

Appendix (continued)

Alternative Performance Measures used in the Financial Statements (continued)

- **Ongoing charges ratio ("OCR")** (continued)

2017 Shares	For the year ended 31 December 2020		
	Company US$	**Master Funds[1] US$**	**Total US$**
Total expenses	811,248	2,512,992	3,324,240
Non-recurring expenses	(3,303)	412,776	409,473
Total ongoing expenses	807,945	2,925,768	3,733,713
Annualised total ongoing expenses	807,945	2,925,768	3,733,713
Average NAV	254,338,231		254,338,231
Ongoing charges ratio (using AIC methodology)	**0.32%**		**1.47%**

[1]Master Funds includes FOIF LP, FOIF II LP and Cycad Investments LP.

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